

FEDERAL BUREAU OF INVESTIGATION
FOI/PA
DELETED PAGE INFORMATION SHEET
FOI/PA# 1355280-0

Total Deleted Page(s) = 36

Page 2 ~ b6; b7C; b7D;
Page 3 ~ b6; b7C; b7D;
Page 4 ~ b6; b7C; b7D;
Page 5 ~ b6; b7C; b7D;
Page 6 ~ b6; b7C; b7D;
Page 7 ~ b6; b7C; b7D;
Page 8 ~ b6; b7C; b7D;
Page 9 ~ b6; b7C; b7D;
Page 10 ~ b6; b7C; b7D;
Page 11 ~ b6; b7C; b7D;
Page 12 ~ b6; b7C; b7D;
Page 13 ~ b6; b7C; b7D;
Page 14 ~ b6; b7C; b7D;
Page 15 ~ b6; b7C; b7D;
Page 16 ~ b6; b7C; b7D;
Page 17 ~ b6; b7C; b7D;
Page 18 ~ b6; b7C; b7D;
Page 19 ~ b6; b7C; b7D;
Page 20 ~ b6; b7C; b7D;
Page 21 ~ b6; b7C; b7D;
Page 23 ~ b6; b7C; b7D;
Page 24 ~ b6; b7C; b7D;
Page 25 ~ b6; b7C; b7D;
Page 26 ~ b6; b7C; b7D;
Page 27 ~ b6; b7C; b7D;
Page 28 ~ b6; b7C; b7D;
Page 29 ~ b6; b7C; b7D;
Page 30 ~ b6; b7C; b7D;
Page 31 ~ b6; b7C; b7D;
Page 32 ~ b6; b7C; b7D;
Page 33 ~ b6; b7C; b7D;
Page 34 ~ b6; b7C; b7D;
Page 35 ~ b6; b7C; b7D;
Page 36 ~ b6; b7C; b7D;
Page 37 ~ b6; b7C; b7D;
Page 38 ~ b6; b7C; b7D;

XXXXXXXXXXXXXXXXXXXXXXXXXXXX
X Deleted Page(s) X
X No Duplication Fee X
X For this Page X
XXXXXXXXXXXXXXXXXXXXXXXXXXXX

9AWEU814-153

SEARCHED	INDEXED
SERIALIZED	<input checked="" type="checkbox"/> FILED
JUL - 1 1992	

b6

b7c

THE QADDAFI

CONNECTION

By Seymour M. Hersh

Five years ago, two former operatives of the United States Central Intelligence Agency — Edwin P. Wilson and Frank E. Terpil — made a business deal with Col. Muammar el-Qaddafi, the ruler of Libya. In essence, the former C.I.A. men, who had become partners in an export-import business, agreed to sell Colonel Qaddafi their accumulated years of American intelligence-agency contacts, experience and expertise. Theirs was a product that could not be purchased on the open market. The colonel, who boasts of supporting terrorism in the Middle East, Europe and Africa and who has been attempting to set up his own new federation of Arab and Moslem states, was willing — and able, because of his vast oil wealth — to pay dearly.

As a result, the two Americans, according to Federal investigators, have made millions of dollars aiding Qaddafi in his drive to export terrorism and build his own Middle Eastern power. Under cover of their export-import business, Wilson and Terpil are said to have helped Libya set up a manufacturing plant for the production of assassination weapons; to have themselves helped Qaddafi plan political assassinations; to have recruited dozens of former Green Berets to teach Libyan soldiers and Arab terrorists how to handle volatile explosives — how, for example, to turn ashtrays into weapons of terror; to have illegally shipped arms explosives to Libya with the aid of forged and fraudulent State Department export

certificates, and to have involved other former C.I.A. employees in their projects.

Information about the Qaddafi connection has been known by the Government since the fall of 1976. It was then that Kevin P. Mulcahy, at the time a partner of Wilson and Terpil, approached the C.I.A. and the Federal Bureau of Investigation with grave doubts about the legality and ethics of his company's business dealings with Libya. Mulcahy, a former C.I.A. employee who had spent six months inside the Wilson-Terpil operation, would spend hundreds of hours, over the next few years, providing the Government with firsthand knowledge.

Kevin Mulcahy has now decided to tell his story publicly for the first time. He's tired of waiting for this segment of his life to end. He wants to be listed again in the telephone directory, to hold a driver's license in his own name, to vote, to own property, to stop living as if he — and not Wilson and Terpil — had been indicted for wrongdoing. He feels he is forced now, in effect, to give his testimony in the pages of The New York Times. The essentials of his account have been verified where possible through secret documents and in interviews with key members of the State Department, the Justice Department, the F.B.I., the United States Attorney's office in Washington, as well as with Stansfield Turner, the former head of Central Intelligence, and other high C.I.A. officials.

□

The Wilson-Terpil case is a story of Americans who meet secretly in bars and board rooms to arrange the illegal sale of electronic-spying equipment and terrorist weapons, and of Americans who train assassins abroad. It is a story of an old-boy network of former C.I.A. operatives and military men, and a story of present and

Seymour M. Hersh, a former New York Times reporter, is now at work on a book about Henry Kissinger to be published by Summit Books.

ALL INFORMATION CONTAINED
HEREIN IS UNCLASSIFIED
DATE 5/2/88 BY SP5 C10m5

sc AD Adm. _____
sc AD Inv. _____
sc AD LES _____
sc Dir. _____
sc Servs. _____
scim. Inv. _____
scnt. _____
scsp. _____
scwill. _____
scb. _____
scsol. Coun. _____
scCong. &
scPubl. Affs. _____
scMgmt. _____
scServs. _____
scInlmg _____
scHome Rm. _____
scTer's Sec'y _____

b3
b7E

SEARCHED	INDEXED
SERIALIZED	FILED
JUN 1 1981	
FBI - WASHINGTON D.C.	

[Handwritten signatures and initials over the stamp]

The Washington Post _____
Washington Star-News _____
Daily News (New York) _____
The New York Times *Magazine* *6/52* _____
The Wall Street Journal _____
The Chicago Tribune _____
The Los Angeles Times _____
The Christian Science Monitor _____

Date 6-14-81

past C.I.A. leaders who seem unable to face fully the implications of the case. It tells of a basic inability of the Government's investigative and law-enforcement agencies, disrupted by internal jealousies and feuding, to perform effectively. It suggests that a moral climate exists inside and on the edges of the intelligence community which results in the subversion of national goals to personal gain.

Ed Wilson was running what amounted to an updated version of the military-industrial complex in which former C.I.A. and military employees have put their Government experience, contacts and knowledge to use for large personal monetary gain, regardless of the damage they will do to their own country. Such men have worked in league with a number of American manufacturers who have specialized in working for the C.I.A. and other intelligence agencies in supplying military goods and highly classified technical equipment. Questions that should normally be asked — Are the sales officially authorized? Are they legal? Do they jeopardize national security? — are not. Senior Government officials, in recent interviews, acknowledge that American expertise is being transferred abroad in unprecedented fashion. The phenomenon, known in the bureaucracy as "technology transfer," is one apparent result of the declining morale inside the intelligence community and the increasing profits available. These officials say that nations such as Chile, South Korea, Brazil, Argentina, Taiwan, South Africa, Iraq and Pakistan have been able to purchase the very latest American equipment and technology in communications, military arms, computer science and nuclear development — with or without authorization from the United States Government.

The matter was intensively reviewed, at high levels, inside the Carter Administration, with little progress. As yet, the Reagan Administration has not addressed the issue. In early May, the Administration did order the Libyan Government to shut down its offices in Washington, as part of the campaign against international terrorism. But it has not faced the broader problem — the export of American weaponry and expertise to terrorists.

Before the Federal prosecutors brought their indictments in April 1980 in the Wilson-Terpil case, the file was presented to Philip B. Heymann, then Assistant Attorney General for the Criminal Division. Heymann, who is returning this summer to teach at Harvard Law School, recalls: "I was shocked by what I saw in the Wilson matter. The notion that there is no control over an American intelligence offi-

cial taking his know-how and selling it to the highest bidder seems to be insane. If terrorism is to be taken as a major national problem," Heymann says, "we'll have to start at home and draft statutes that would bar the sale of fancy American equipment and fancy American expertise for terrorist purposes. It won't be an easy matter, because it's hard to put a lid on the dissemination of information. But this question is exactly what Congress ought to be holding hearings on."

Federal authorities, in accepting Kevin Mulcahy's story as accurate, acknowledge that its implications are deeply disturbing: Qaddafi obviously has utilized the materials and expertise of Wilson and Terpil in his support of such terrorist groups as the Palestine Liberation Organization, the Red Brigades of Italy, the Red Army of Japan, the Baader-Meinhof gang in Germany and the Irish Republican Army. He is suspected of having ordered the murder of at least 10 political enemies in Europe and the Middle East; two months ago, the F.B.I. arrested Eugene A. Tafoya of New Mexico, a former Green Beret, and accused him of an attempted assassination of a Libyan student at Colorado State University. The Libyan is one of a growing number outside the country who oppose Qaddafi's rule. When arrested, Tafoya, who traveled to Libya three times last year, had Ed Wilson's business card in his possession with telephone and telex listings in Tripoli, London and Washington for one of Wilson's Swiss-based companies. Tafoya's links to Wilson are still being investigated.

Colonel Qaddafi is relentlessly anti-Israel, supports the most extreme factions in Syria and opposes the moderating influences of Jordan's King Hussein and Egypt's Anwar el-Sadat as part of his campaign of political expansion in North Africa. Qaddafi's ambitions were strengthened early this year when he successfully invaded Chad, seizing an area believed to be rich in uranium ore. The war also meant more profit for Wilson, who has established his own trading company in Tripoli, known as Meprico, to supply Qaddafi's army. Libya, relying on its estimated \$25 billion in annual oil revenues, is a major purchaser of Soviet arms, and more than 5,000 Warsaw Pact military advisers are believed to be on duty with Qaddafi's 60,000-man army.

□

A former high-speed-communications and computer-technology expert in the C.I.A., Kevin Mulcahy was no innocent when he came forward about the way the export-import business had worked. He had gone into business with Wilson and Terpil at a high guaranteed income. Within three months, Mulcahy

realized that his partners were routinely testing restricted military and communications gear. He himself offered to sell such sophisticated equipment as second-generation computer systems and coded communications machinery. Mulcahy did not hesitate in his talks with the authorities to acknowledge his own role in questionable activities, which included the sale of embargoed ammunition to South Africa. In all of these dealings, he says, he believed or wanted to believe that Wilson and Terpil were somehow part of a covert C.I.A. operation.

Today, Mulcahy is an angry and frustrated man. He believes his life is in danger, a belief shared by Federal officials, and he is deeply disturbed by what he regards as a monumental lack of resolve, competence and communication within the Federal Government in handling the case. It took nearly four years to indict Wilson and Terpil in Washington, on charges that include illegal export of explosives, failing to register as a foreign agent, and conspiracy and solicitation to commit murder. Despite fugitive warrants, the Government has been unable to apprehend them at a time when their travels in and about Europe, the Middle East, Africa and the United States have been observed by many people. Last winter, more than six months after his indictment, Wilson was seen by a business friend in Blackie's House of Beef, a Washington restaurant, with a group of his former employees; it is not known how he entered the country. Mulcahy, meanwhile, has been forced to lead a life of furtiveness. "I've had five years of indecision, contradiction and waiting for the day that this chapter of my life ends," he says. "The Government keeps telling me, 'We're on top of it; we're on top of it.' Yet Wilson and Terpil remain at large, and many of their operations, which clearly seem to be working against the interests of their own country and, indeed, world peace, are believed to be continuing at this moment.

Kevin Mulcahy, now 38, grew up vintage Americana in suburban Washington: altar boy, Eagle Scout, varsity basketball, class vice president. He was a son of Donald V. Mulcahy, a 28-year-career senior official of the C.I.A., four of whose six children were also employed by the agency. Kevin, the oldest child, began working full-time for the C.I.A. in 1963, after serving as an airborne radio operator in the Navy. He became a communications and

ever worked on highly classified programs that he will not talk about today. In 1968, he resigned

from the agency to take a position in the electronics industry. There followed a succession of increasingly responsible jobs in the computer industry, a serious drinking problem that drove him into Alcoholics Anonymous, and a painful divorce.

By the fall of 1974, Mulcahy had come to grips with his alcoholism and, having left the computer industry, began working in Virginia as a counselor in a drug- and alcohol-treatment center. By 1975, he was trying to set up a series of halfway houses and was scrambling for Federal grants. Mulcahy rented a house by chance from a Barbara Wilson — Edwin P. Wilson's wife. Mulcahy became friendly with her and eventually was invited to dinner at the Wilsons' newly purchased, luxurious 1,500-acre farm in Upperville, Va. Ed Wilson, now 52, was well known inside the C.I.A. as a skilled and trustworthy operative. Wilson, who began his export-import business in the early 1970's while working as a consultant for a top-secret Navy intelligence unit, had played a role in the Bay of Pigs and other undercover operations in his long C.I.A. career as a contract agent. Mulcahy was impressed.

Over dinner, Wilson made it clear that he knew pretty much all there was to know about Kevin Mulcahy, about his former employment with the C.I.A. and his current work with teen-agers. A few months later, Wilson made an offer Mulcahy would not refuse: If Mulcahy would join his arms-sales business in Washington and remain for one year, he could then have as a bonus a nine-bedroom farmhouse Wilson also owned and use it as a halfway house for troubled youths. Mulcahy's guaranteed \$50,000 annual income would be supplemented by commissions and expenses. "I had no suspicions at all about the job," Mulcahy recalls, and he began working hard. "I was putting in 18 hours a day at first, dealing with 10,000 suppliers and inquiries about canned food, parachutes — any kind of equipment, from machine guns to aircraft. There was no reason for suspicion in those weeks." Most of the business was aboveboard and involved the sale of highly technical equipment. Mulcahy was responsible for arranging export licenses, international letters of credit and shipping, and also for determining which manufacturers' equipment would meet the specifications of the order.

Mulcahy obviously passed muster. In the early spring of 1976, Wilson walked him to another office a few blocks away, in downtown Washington, and introduced him to Frank Terpil, now 41. Terpil had served about seven years as a communications technician for the C.I.A. but was forced to resign in 1971 after a series of embarrassing private escapades, including an attempt to smuggle contraband liquor into India. Unlike Wilson, who mingled easily and

effortlessly with senior C.I.A. officials, corporate executives and important members of Congress, the Brooklyn-born Terpil was a street operator who had been arrested twice for illegal trafficking in arms. Mulcahy knew nothing about Terpil except that he had worked overseas for the C.I.A.

The three men agreed to set up a new company, to be known as Inter-Technology Inc., for the specific purpose of selling high-speed communications gear and computers to foreign countries. The equipment was legally purchased from American companies. Each man was to be a one-third partner of Inter-Technology, which, it turns out, was one of scores of Wilson-Terpil companies scattered in corporate records throughout the United States and Europe.

If Mulcahy had any doubts about his new job, he suppressed them by believing — or wanting to believe — that Ed Wilson was still linked to the C.I.A. "Ed would parade his contacts in the C.I.A. with the people he was doing business with to impress them that he was still C.I.A.," Mulcahy says. "He would suggest he was still under deep cover." Often on Friday nights, Wilson made it a point to go drinking at bars in suburban Virginia known to be after-hours hangouts for C.I.A. officials on duty at the agency's headquarters in McLean. Mulcahy, the new partner, began going along. "I thought he was agency," Mulcahy says of Wilson. "I had no question in my mind."

A few days after the new partnership was formed, Mulcahy discovered sales orders showing that Wilson and Terpil were in the process of selling machine guns and silencers to an arms dealer in Zambia. He was bothered by the sale of the silencers for he knew they had only one purpose — killing without drawing attention to the killer. He telephoned the F.B.I. and later showed copies of the sales orders to agents in the Bureau of Alcohol, Tobacco and Firearms (B.A.T.F.), one of whose functions it is to monitor illegal arms deals and report on impending sales. He also asked about his new partners. The authorities said that the sale to Zambia was legal and that they had no derogatory information about Wilson and Terpil in their files. "I said to myself, 'Christ, this has got to be an agency operation,'" Mulcahy recalls. "These guys are buying and selling silencers, and the F.B.I. and B.A.T.F. give them the O.K. So I'm feeling pretty good: I'd gone to the Federal authorities, shown them documents and they said Wilson and Terpil were clean."

□

Wilson's contacts seemed inexhaustible. Ed Wilson was friendly, as Mulcahy and Federal investigators were later to learn, with many senior legislators, including Senators Strom Thurmond of South Carolina and the late John L. McClellan of Arkansas and Representative Silvio O. Conte of Mas-

achusetts. He could telephone a contact in the Internal Revenue Service and within 15 minutes have intimate financial details on a potential customer. He was able, with a telephone call to Washington's police headquarters, to obtain registration information on a local automobile license plate. But sometime in late May of 1976, Wilson went a step further: He telephoned Theodore G. Shackley, a prominent C.I.A. official who was then serving as the assistant to the deputy director for clandestine operations — one of the most powerful posts in the agency. Shackley was renowned for his toughness and efficiency as a station chief in Laos and in South Vietnam during the height of the Vietnam War, when the C.I.A. was deeply involved in its still controversial Phoenix assassination program. He later served in Chile, when the C.I.A. was assigned the task of interfering with the Government of Salvador Allende Gossens.

Wilson arranged a meeting at Shackley's home a few nights later after work, bringing along Mulcahy and an American, Harry Rastatter, one of Terpil's business associates who had just returned from a business trip to Egypt, Turkey and Iran. Rastatter had obtained some information from Savak, the Iranian internal police, and was willing to pass it along to the C.I.A. Shackley was introduced by Wilson to Mulcahy and recalled knowing his father, who earned the National Intelligence Medal, the agency's highest reward, before retirement. There was talk about military and intelligence needs in Iran, Turkey and Libya. Wilson told Shackley that he and Terpil were planning to travel to Tripoli and meet with Qaddafi. "By now I'm convinced that the whole thing is an agency front," Mulcahy recalls. "I thought Ed was in bed with the C.I.A." Some Federal officials say they are still investigating Shackley's personal and financial involvement with Wilson. Shackley has acknowledged to Federal authorities that the meeting described by Mulcahy as well as other meetings with Wilson did take place, but Shackley insisted that at no time did Wilson receive any authority or sanction from the C.I.A. for his work in Libya. He said his contacts with Wilson were solely for the purpose of obtaining any stray bits of intelligence Wilson might have picked up. Wilson and Shackley had worked to-

9

gether in 1960 on the Bay of Pigs operation. Shackley, in an interview, confirmed Mulcahy's account of the meeting and said that he, like Mulcahy, was unaware then of Wilson's plans for supporting Qaddafi's terrorist program. Shackley said his purpose in talking to Wilson and Rastatter was to collect information from non-C.I.A. sources. "I talked to them solely not to be a captive of the system," he said. "Wilson was a guy who knew about a lot of things. He was a good contact."

After the Shackley meeting, Mulcahy was brought into the Libyan operation. Muammar el-Qaddafi had placed a purchase order with Wilson and Terpil for hundreds of timers capable of detonating explosives at some specifically delayed time. Wilson and Terpil did not tell Mulcahy, however, the real purpose of the devices; instead he was led to believe that Qaddafi needed them to clear mines from harbors and battlefields by safely blowing them up. The mines, so Mulcahy was told, had been left from the 1973 Arab-Israeli war. The timers were to be demonstrated to Qaddafi's senior military and intelligence aides that June in Libya, and Wilson and Terpil had to find an immediate manufacturer. They decided to exploit a long-time C.I.A. contractor, the American Electronic Laboratories of Colmar, Pa., and Falls Church, Va., which had routinely been providing the agency with some of its most highly classified electronics and communications gear.

American Electronic was a logical starting place. In May 1976, Wilson had visited the company's plant in Falls Church in an effort to persuade its officers to retain his firm to represent its products around the world. Wilson brought Mulcahy and Terpil to the meeting, as well as an active C.I.A. employee, Patry E. Loomis, an agent assigned to the Far East who was operating under cover for an aircraft company. One of Loomis's functions was to serve as a liaison officer between C.I.A. headquarters and its overseas stations; he was responsible for establishing personal relationships with senior military and Government officials in the Far East. Loomis added credibility to Wilson's pitch. "Terpil was there to impress them with his contacts in the Middle East," Mulcahy recalls. "Wilson was there for Europe and Loomis for the Far East. I was there because it was told to them that I was ex-C.I.A. and would remain on-site and accessible while the others traveled."

Loomis, who had been illegally moonlighting for Wilson for some time, was one of dozens of former Government employees who had been recruited by

Wilson and Terpil. Government investigators have learned that Wilson's technique, utilized in his approach to American Electronic, was to seek out intelligence and military officials with close relationships with both vital suppliers and foreign governments. These men would be retained to sell goods, ranging from canned foods to weapons, to those foreign countries. Income for his salesmen, as well as for Wilson, was

extremely high, in part because the sales were often contingent on under-the-table kickbacks to Wilson's company and to foreign officials.

No agreement was reached between Wilson and senior officials of American Electronic at their meeting, but Wilson and his associates were able to leave the impression that their work was not only highly profitable but also had been officially sanctioned by the Government. In June, when the 10 prototype timers were needed, another series of meetings was set up in a Virginia bar involving three of Wilson's employees, along with William Weisenburger, then an active-duty C.I.A. official, and two employees of American Electronic, one of whom was another C.I.A. official, then working under cover. Weisen-

burger and the American Electronic men agreed to work privately over the weekend to produce 10 prototype timing devices at the inflated cost of \$1,500 each (10 times the actual cost). Federal authorities later concluded that these men knew that there had been no official C.I.A. authorization for the job, and that senior officials of American Electronic had not known of the moonlighting. It was a project that in the months ahead struck Mulcahy as wildly ironic: He knew that many of the company's senior officials were Jewish and, he now says, "You can bet they wouldn't do anything for Libya."

□

Mulcahy was beginning to get a taste of life as an international salesman, and it was good. In June, he flew to England to set up an exhibition at a security show at Brighton. The rooms were first class. So was the food, and there seemed to be a constant series of parties, and party girls. One of Mulcahy's first customers at the security show was a Syrian company, Abdallah Engineering, which was interested in purchasing high-speed communications equipment — gear so sensitive, Mulcahy thought, that the State Department would never permit its export. "Frank told me, 'Don't worry about it. We don't need licenses. Just get the order,'" Mulcahy recalls. "By now it was obvious that Wilson and Terpil had a wide latitude for the agency."

The equipment included encoding de-

vices and radio monitors capable of tracking, intercepting and interpreting encoded signals. There was a meeting with representatives of the Irish Republican Army, who wanted American-made M-16 rifles. Mulcahy learned that such weapons could be found in plentiful supply; North Vietnam had sold its surplus weapons — seized in huge quantities after its army overran South Vietnam in 1975 — to Samuel Cummings of Interarmco, the European-based arms dealer. It was in England also, Mulcahy says, that Terpil asked him if he wanted to earn \$5,000 on his return flight to Washington by detouring to Cairo to deliver a "cold gun," one with no identifying serial number. Mulcahy refused to deliver the weapon, but did

[learn months later that Qaddafi had provided Terpil and Wilson with a \$1 million contract to assassinate Umar Abdallah Muhayshi, a Libyan defector who had plotted to overthrow Qaddafi's regime. The assassination assignment had been subcontracted by Wilson to three anti-Castro Cubans in Miami with whom he had once worked in the C.I.A. "Frank was playing both ends against the middle," Mulcahy recalls. "He was setting up an elaborate security system for the guy in Egypt to protect him while at the same time trying to bump him off."

□

Mulcahy and Terpil got along well and the two men exchanged many confidences during their trips together. "Frank tends to talk a lot; he likes to name-drop," Mulcahy says. "What charges Frank's batteries is the thrill of the chase, the excitement, being on the periphery of power. He thrives on it." In time, Mulcahy said, he came to realize that there was more truth in Terpil's seemingly wild stories than he had thought.

Wilson is more discreet and far more dangerous, Mulcahy said. "Ed is devious and cunning and he's living a lie — that he is the most important human being alive. He'll use anything to manipulate people or events to get them to come

10

out in his favor. He's absolutely brilliant in the way he sets a deal up, puts people together and parcels out information. Ed compartmentalizes his own operation the same way the agency does. It allows him to play both ends against the middle and come out the winner. If Ed comes back and goes on trial, he's going to use every bit of information he's stored up for years to get the C.I.A. in court and put the agency on trial instead of Ed Wilson." In fact, Wilson's attorney in Washington, Seymour Glanzer, has repeatedly told Federal prosecutors that the whole story of his client's involvement in Libya has not been aired. Glanzer, in a telephone interview, refused to comment. But the prosecutors have inferred from conversations with him that his defense will be: Wilson is still at work for the C.I.A. There is no known evidence that this is the case, however.

Mulcahy immediately sensed Wilson's essential toughness, but there was nothing unusual about such men inside the C.I.A. and it was a characteristic that could be admired. Mid-1976 was a period of travail for the C.I.A., which was under attack in the press for its illegal domestic spying activities and under investigation by the Senate Intelligence Committee for its foreign assassination efforts. Mulcahy learned, shortly after joining Wilson and Terpil, that President Ford had placed severe new restrictions on clandestine C.I.A. activities. Wilson and Terpil suddenly became more legitimate in his eyes: "I thought it was logical that the agency would set it up this way and have their people on the street freelancing."

During that summer, Mulcahy edged closer to the line of illegality and, in at least one case, crossed it. He recalls that Wilson and Terpil were selling munitions, communications equipment and highly restricted night-vision devices without preliminary clearance from the Office of Munitions Control in the State Department and the export control division in the Commerce Department. In one case, Wilson and Terpil purchased a United

States Army vehicle equipped with night-surreillance equipment for shipment to Libya, in direct violation of all regulations. To avoid any possible problem, the vehicle was first sent to Canada and transshipped from there to Tripoli. The risks of such flagrant activity were high, but so were the rewards. The vehicle cost about \$60,000 to purchase in the United States and was sold to the Libyan Government by Wilson and Terpil for \$90,000, Federal prosecutors later learned. Similarly, Terpil and Wilson provided Qaddafi with

hundreds of closely controlled and sophisticated infrared night-vision devices for M-16 rifles, which were primarily designed for use by snipers in warfare. Not all such sales went to Libya. Mulcahy says he was directly involved in the illegal sale of 2,000 rounds of ammunition to the South African Government, and he used falsified documents to label the ammunition as "plumbing fixtures." This and other sales, he says, were arranged through Sven K. H. Hoffelner, an Austrian arms dealer who also owns a successful group of restaurants in London. Hoffelner had established a close working relationship with Terpil by the time Mulcahy joined the operation.

In July 1976, after his return from England, Mulcahy learned that only six of the 10 timing devices sent to Libya had worked. The demonstration of the devices was made in Libya by John Henry Harper, who had spent more than 20 years as a bomb and ordnance technician for the C.I.A. and who had joined American Electronic after he retired. Two of the timers had failed, Mulcahy was told, because Harper had miswired them. Libya's reaction to the demonstration was puzzling to Mulcahy: Although nearly half the devices had failed to work, the

Libyans were still willing to order 100,000 for immediate delivery. A few weeks later, Terpil returned from a visit to Libya with an increase in the order to 300,000 timers. "I didn't get suspicious," Mulcahy recalls, "until Frank came in with the order for 300,000. I knew damn good and well that there was no way there was a need for 300,000 timers — there weren't 300,000 mines in the harbors and deserts from the Six-Day War as well as World War II."

At this point, Mulcahy understood that Wilson's story about mine-clearing in Libya was false, but he thought it was shielding a C.I.A. operation, and not serving as a cover for a terrorist-support program. The cover story was beginning to erode. Whatever concerned Mulcahy was quietly suppressed over the next few weeks, however: "I was impressed by the money and the possibility of making a fortune."

By this time, it was clear that the senior officers of American Electronic could not be persuaded to build 300,000 timers without verifying the order with the C.I.A. There was yet another scramble: This time to find a manufacturer who could begin delivering the timers within 45 days. Another Friday night meeting in a Virginia bar was arranged with Mulcahy and representatives of another long-time C.I.A. supplier, Scientific Communications Inc. of Dallas. Terpil had found the company, whose president, Joe L. Halpaine, later agreed to manufacture 500 prototype timers within 30 days. At the Friday night meeting was William Weisenburger, then a branch chief in the C.I.A.'s Technical Services Division — the group responsible for producing the special weapons and safety de-

vices that have been popularized by the James Bond movies. Thomas G. Clines, then a senior official in the C.I.A.'s Office of Training, also was in the bar that night, sitting with Ed Wilson. Mulcahy spent the night table-hopping as the manufacturing plans were worked out. Clines was well known inside the agency for his closeness to Ted Shackley. Like the others, Clines had

played a role in the Bay of Pigs. After Shackley's retirement from the C.I.A. in 1979, he and Clines would set up a consulting firm.

Everybody smelled the big money that night in the bar. Mulcahy later learned that the final contract with Qaddafi called for a total payment of \$35 million for 500,000 timers whose cost to supply, he knew, would be somewhere around \$2.5 million. Even in the international-arms business, profits like that are not easy to come by.

Wilson's major concern was time; he had promised the Libyans that he would set up a manufacturing laboratory near Tripoli for the production of assassination weapons in August. Qaddafi, in turn, promised to pay him \$1 million in cash immediately upon arrival of the first batch of timers, explosives and other equipment that would be needed. Manufacturing the weapons themselves in Libya would be no problem; men such as John Harper, who was paid more than \$2,000 a week by Wilson and Terpil, agreed to go to Libya and begin training Libyans in the art of disguising explosives in ashtrays, flowerpots, lamps and other household goods that could be triggered by delayed timing devices. Scientific Communications came through on its promise to deliver the proto-

//

type timers within 30 days. The Texas company had handled legitimate and sensitive contracts for the C.I.A., but this one was different and the firm's president, Joe Halpain, knew it. He personally delivered the timers, hidden in plastic-prescription bottles for export to Libya, to a motel near C.I.A. headquarters, where they were picked up by Wilson and Mulcahy. Far more difficult were the issues of where to purchase the volatile chemical explosives needed for the production of the assassination weapons and how to slip them into Libya. The necessary explosives included TNT and a variety of lethal *plastiques* — among them RDX, formally known as cyclotrimethylene trinitramine — which were designated as Class A explosives by the Department of Transportation and could not be shipped on passenger and cargo aircraft. Wilson and Terpil again reached into the ranks of C.I.A. contractors and found a California firm, J.S. Brower and Associates of Pomona, which agreed to supply the chemicals, all of which were considered defense articles that could not be exported without Federal licensing.

□

One problem remained: how to get the timers and explosives into Libya. In early August, 1976, Mulcahy attended a meeting at the offices of Inter-Technology in Washington with a cargo sales manager of Lufthansa German Airlines, which has passenger service from Germany to Tripoli. The sales manager, Walter Doerr, categorically refused to ship the explosives, legally or otherwise, on a passenger craft. And he refused to charter a special cargo plane because of the high risk of explosion. Later that day, Terpil arranged a meeting with Jerome S. Brower, the 61-year-old president of Brower and Associates, who was a highly respected figure in his industry (and later was asked to advise Congress's Office of Technology Assessment on a proposed method of marking and tracing explosives used in international terrorism). Brower was shown a list of all the chemicals that Inter-Technology wanted to purchase for the Libyan operation. Mulcahy recalled that Brower immediately exclaimed: "Hey, you don't need all this stuff for mine clearance."

Wilson explained that the company was setting up a laboratory in Tripoli and doing some demonstrations work. "He didn't say precisely what we were doing," Mulcahy recalls, "but it was obvious. Wilson went further than I'd ever heard in explaining the scope of the entire project. There was an enormous potential for follow-up business which removed any inhibitions Brower had." Mulcahy marveled at Wilson's ability to handle Brower: "Brower had never done any business with either of these guys before and here he is agreeing to sell and ship explosives to

Libya." Brower immediately raised his price and demanded partial payment in advance. Wilson and Terpil agreed to pay nearly \$38,000 on account, Mulcahy says, and the California businessman "called his plant, talked to his wife, Peggy, and his plant manager and told them how to pack the chemicals."

RDX, the most lethal and unstable material, was to be placed inside 55-gallon drums in webbing and the drums then were to be filled with a gel substance. The explosives were to be shipped East, to Dulles Airport, marked as "industrial solvent," on the first available passenger flights, Mulcahy recalls. Once at Dulles, they were consolidated into one shipping container, along with the timers and the industrial tools and workbenches needed to set up the explosives laboratory in Libya. Then they were forwarded to Europe for transshipment by Lufthansa passenger planes to Tripoli without knowledge of the airline. All of the men involved in the meeting in Washington understood the implications of what they were doing, Mulcahy says: "The nitro could have blown if the plane hit an air pocket."

Brower was indicted in April 1980, along with Wilson and Terpil, for his role in illegally conspiring to ship the explosives with knowledge that they would be used to "kill, injure and intimidate individuals." After pleading guilty and agreeing to cooperate with Federal investigators, he was fined \$5,000 last December and sentenced to a five-year prison term, with all but four months suspended.

The meeting with Brower had resolved the final stumbling block and Wilson flew to Libya, where he was to conclude the arrangements for establishing the weapons laboratory and to be on hand to insure the careful handling of the shipment of "industrial solvent" from the United States. He also would receive the promised million-dollar payoff from Qaddafi.

□

Kevin Mulcahy, meanwhile, flew to Europe for a meeting in London with Terpil and a group of British arms dealers. There was the inevitable party early one balmy Sunday afternoon, thrown by Sven Hoffelner, the trade link to South Africa. Hoffelner had rented a barge and as it was being poled along a canal near Oxford in the bright sun, Mulcahy began taking casual snapshots of the revelry. Terpil saw his camera, Mulcahy recalled, and "went berserk. He got all red in the face; he was really, really nervous and told me to put the camera away before 'you end up dead.' "

Later that evening, Terpil explained that one of the guests on the barge was Carlos Ramirez, known to police throughout the world as "the Jackal" — the international terrorist believed to be responsible for planning the 1972

Olympics "massacre" in Munich, a deadly raid on the Fiumicino Airport in Rome and numerous aircraft hijackings. There was no photograph of Ramirez in existence, Terpil told Mulcahy; the "Wanted" posters on display at airports throughout the world contained only a composite drawing. Terpil also told Mulcahy that Ramirez was living in barracks No. 3 at the former Wheelus United States Air Force base in Libya. Terpil seemed awed by Ramirez, who was accompanied at the party by Sayad Qaddafi, chief of Libyan intelligence, identified by Terpil as Qaddafi's cousin and the second most powerful man in Libya.

□

Mulcahy was now in far too deep and he knew it.

It was late August and John Harper and other Wilson-Terpil employees were at work in Tripoli setting up the munitions laboratory for terrorist bombs and a training program for their effective use. Wilson and Terpil made it clear to Mulcahy that they did not want him to go to Libya. Mulcahy kept his now grave doubts to himself and continued on his business trip, moving on to Copenhagen and another series of meetings. Terpil returned to Libya, and he and Wilson suddenly dispatched an urgent cable to Copenhagen: Mulcahy was to break off his trip and return to Washington to open negotiations there with the General Dynamics Corporation for the purchase of one of its Red-eye ground-to-air missiles. General Dynamics had advertised in trade journals that it had 18 Redeyes for sale to legally acceptable buyers. The missile, which could not be exported to Libya under the law, is shoulder-launched and has a heat-seeking component that enables it to track and destroy aircraft in flight. It had been used extensively and successfully by the Israelis during the 1973 war. "My problem was not to worry about the paperwork," Mulcahy says. "Terpil and Wilson had a pilot in Pennsylvania who would fly anywhere. Once he got over the water" — and away from American legal jurisdiction — "he would change the paper." If the Redeye had been purchased, the pilot would simply change the intended recipient listed on the export license, from an approved ally, such as those in NATO, for example, to Libya.

Altering the State Department's export license, known officially as the end-user certificate, was considered so much a normal part of the arms business by Wilson and Terpil that Mulcahy had been authorized to quote prices 8 percent to 12 percent higher if the sale also required supply of the certificate. Mulcahy was unnerved by his sudden assignment and discussed it with an associate in Copenhagen — a foreign military attaché stationed in Denmark who had a reputation for legitimate operations. "My friend told me that the only

12

reason Libya would want one Redeye was for use in a terrorist attack," Mulcahy says. "We speculated that Qaddafi probably wanted to be the first to shoot down a 747. To hit a fully loaded passenger plane in flight would be bigger than the destruction of planes at Dawson Air Field in Jordan," when P.L.O. terrorists in 1970 blew up three international airliners and held scores of passengers hostage.

Mulcahy had a leisurely dinner and began walking the streets of Copenhagen. He couldn't sleep. He recalled a trip he and Terpil had taken to a firm called Defense Apparel in Hartford, Conn., where Terpil discussed the possible purchase of up to 100,000 suits that would protect humans exposed to radioactivity. Could the Redeye carry a nuclear warhead? He knew now he would never place the Redeye order.

"I watched the sunrise come in Copenhagen," Mulcahy recalls, "and knew what I had to do — get back to Washington fast. I had to find out what paperwork existed" in the Inter-Technology offices he shared with Wilson and Terpil. "I felt that Frank and Ed were giving Qaddafi any goddamn thing he asked for." ■

THE MAN WITH THE CONTACTS

Edwin P. Wilson is invariably depicted by former associates as a charming, charismatic, effective, rough-and-ready, 6-foot-4 swashbuckler who excelled in his military and intelligence career. But the real reasons for his success as an international weapons dealer are the contacts he has built up during more than 20 years of work with United States Government intelligence services.

Wilson went to work for the C.I.A.'s Office of Security in 1951 and, after serving in the Marines, became a full-time C.I.A. contract employee in 1955. In the late 60's, he helped organize a Washington firm called Consultants International Inc. for the C.I.A. and the Navy. The firm's ostensible purpose was to conduct export-import operations, but that function was a cover for classified intelligence operations.

Over the next few years, his intelligence activities were combined and mingled with his private operations. He hired a number of associates, many of them with military or intelligence backgrounds, and, according to Federal officials, was routinely receiving huge kickbacks from American manufacturers and foreign governments on his procurement contracts.

The men working for him were convinced that he was still active in C.I.A. intelligence operations. "I thought he was reporting directly to the President," one former associate recalls. "Ed still must be sanctioned by the U.S. Government. The people I met were impressive. All of a sudden I'm on a first-name basis with big names in Congress and the Senate. It was always like the Government was supporting us." Robert Keith Gray, an influential public-relations man known for his close ties to the Eisenhower, Nixon and Reagan Administrations, was among those listed as a member of the board of Consultants International for five years, beginning in 1970. However, Gray, who served as co-chairman of Reagan's Inaugural Committee, expressed sur-

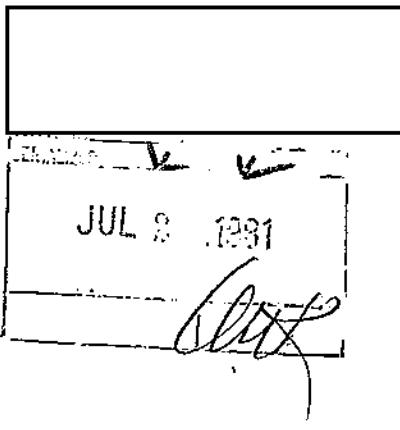
prise in an interview upon being told of his official listing. "I never knew I was on the board," Gray said. "I never was invited to a board meeting." He acknowledged that he has had a social and business relationship with Wilson, whom he described as "charming and very much a red-blooded American."

In 1971, Wilson dropped his C.I.A. connection and was a part of Task Force 157, a secret Navy intelligence unit that employed 50 to 75 agents to monitor and collect information on Soviet shipping. It reported not only on routine cargo items but also watched for the covert shipment of military goods and nuclear weapons. The unit also was charged with the responsibility of picking up intelligence operatives from Taiwan and secretly ferrying them inside mainland China, where they would implant sensitive seismic monitors and radio equipment. Those operations were stopped after President Richard M. Nixon's visit to Peking in 1972, and C.I.A. officials were astonished to learn later that some of the sensitive equipment, designed solely for use inside China, was appearing for sale in the international arms market.

Wilson's first C.I.A. assignment, in the 50's, was to infiltrate the Seafarers International Union, in which he was eventually appointed to a number of official positions. He also was involved in Congressional lobbying on behalf of the union and apparently began then forming his close relationship with a number of influential members of Congress. Wilson became a C.I.A. specialist on maritime issues and was involved in the procurement of equipment for clandestine Navy operations. During the Bay of Pigs, he was assigned as a paymaster and handled procurement as well. He later served in Southeast Asia and Latin America.

A full accounting of Wilson's connections and business activities may never be known. He has boasted of having a controlling interest in more than 100 corporations in the United States and Europe. — S.M.H.

J-Pav
71



THE QADDAFI CONNECTION

Kevi in 19
and agree
been seen
of hi
assoc
once were
terro
Muk
the A
Was
on a
with

A former C.I.A. analyst publicly reveals the story behind a group of ex-C.I.A. and military men who have been selling restricted materials and their expertise for use by Libyan terrorists. The first of a two-part series.

By Seymour M. Hersh

Five years ago, two former operatives of the United States Central Intelligence Agency — Edwin P. Wilson and Frank E. Terpil — made a business deal with Col. Muammar el-Qaddafi, the ruler of Libya. In essence, the former C.I.A. men, who had become partners in an export-import business, agreed to sell Colonel Qaddafi their accumulated years of American intelligence-agency contacts, experience and expertise. Theirs was a product that could not be purchased on the open market. The colonel, who boasts of supporting terrorism in the Middle East, Europe and Africa and who has been attempting to set up his own new federation of Arab and Moslem states, was willing — and able, because of his vast oil wealth — to pay dearly.

As a result, the two Americans, according to Federal investigators, have made millions of dollars aiding Qaddafi in his drive to export terrorism and build his own Middle Eastern power. Under cover of their export-import business, Wilson and Terpil are said to have helped Libya set up a manufacturing plant for the production of assassination weapons; to have themselves helped Qaddafi plan political assassinations; to have recruited dozens of former Green Berets to teach Libyan soldiers and Arab terrorists how to handle volatile explosives — how, for example, to turn ashtrays into weapons of terror; to have illegally shipped arms explosives to Libya with the aid of forged and fraudulent State Department export

certificates, and to have involved other former C.I.A. employees in their projects.

Information about the Qaddafi connection has been known by the Government since the fall of 1976. It was then that Kevin P. Mulcahy, at the time a partner of Wilson and Terpil, approached the C.I.A. and the Federal Bureau of Investigation with grave doubts about the legality and ethics of his company's business dealings with Libya. Mulcahy, a former C.I.A. employee who had spent six months inside the Wilson-Terpil operation, would spend hundreds of hours, over the next few years, providing the Government with firsthand knowledge.

Kevin Mulcahy has now decided to tell his story publicly for the first time. He's tired of waiting for this segment of his life to end. He wants to be listed again in the telephone directory, to hold a driver's license in his own name, to vote, to own property, to stop living as if he — and not Wilson and Terpil — had been indicted for wrongdoing. He feels he is forced now, in effect, to give his testimony in the pages of *The New York Times*. The essentials of his account have been verified where possible through secret documents and in interviews with key members of the State Department, the Justice Department, the F.B.I., the United States Attorney's office in Washington, as well as with Stansfield Turner, the former head of Central Intelligence, and other high C.I.A. officials.

□

The Wilson-Terpil case is a story of Americans who meet secretly in bars and board rooms to arrange the illegal sale of electronic-spying equipment and terrorist weapons, and of Americans who train assassins abroad. It is a story of an old-boy network of former C.I.A. operatives and military men, and a story of present and

past C.I.A. leaders who seem unable to face fully the implications of the case. It tells of a basic inability of the Government's investigative and law-enforcement agencies, disrupted by internal jealousies and feuding, to perform effectively. It suggests that a moral climate exists inside and on the edges of the intelligence community which results in the subversion of national goals to personal gain.

Ed Wilson was running what amounted to an updated version of the military-industrial complex in which former C.I.A. and military employees have put their Government experience, contacts and knowledge to use for large personal monetary gain, regardless of the damage they will do to their own country. Such men have worked in league with a number of American manufacturers who have specialized in working for the C.I.A. and other intelligence agencies in supplying military goods and highly classified technical equipment. Questions that should normally be asked — Are the sales officially authorized? Are they legal? Do they jeopardize national security? — are not. Senior Government officials, in recent interviews, acknowledge that American expertise is being transferred abroad in unprecedented fashion. The phenomenon, known in the bureaucracy as "technology transfer," is one apparent result of the declining morale inside the intelligence community and the increasing profits available. These officials say that nations such as Chile, South Korea, Brazil, Argentina, Taiwan, South Africa, Iraq and Pakistan have been able to purchase the very latest American equipment and technology in communications, military arms, computer science and nuclear development — with or without authorization from the United States Government.

The matter was intensively reviewed, at high levels, inside the Carter

Seymour M. Hersh, a former *New York Times* reporter, is now at work on a book about Henry Kissinger to be published by Summit Books.

Administration, with little progress. As yet, the Reagan Administration has not addressed the issue. In early May, the Administration did order the Libyan Government to shut down its offices in Washington, as part of the campaign against international terrorism. But it has not faced the broader problem — the export of American weaponry and expertise to terrorists.

Before the Federal prosecutors brought their indictments in April 1980 in the Wilson-Terpil case, the file was presented to Philip B. Heymann, then Assistant Attorney General for the Criminal Division. Heymann, who is returning this summer to teach at Harvard Law School, recalls: "I was shocked by what I saw in the Wilson matter. The notion that there is no control over an American intelligence official taking his know-how and selling it to the highest bidder seems to be insane. If terrorism is to be taken as a major national problem," Heymann says, "we'll have to start at home and draft statutes that would bar the sale of fancy American equipment and fancy American expertise for terrorist purposes. It won't be an easy matter, because it's hard to put a lid on the dissemination of information. But this question is exactly what Congress ought to be holding hearings on."

Federal authorities, in accepting Kevin Mulcahy's story as accurate, acknowledge that its implications are deeply disturbing: Qaddafi obviously has utilized the materials and expertise of Wilson and Terpil in his support of such terrorist groups as the Palestine Liberation Organization, the Red Brigades of Italy, the Red Army of Japan, the Baader-Meinhof gang in Germany and the Irish Republican Army. He is suspected of having ordered the murder of at least 10 political enemies in Europe and the Middle East; two months ago, the F.B.I. arrested Eugene A. Tafoya of New Mexico, a former Green Beret, and accused him of an attempted assassination of a Libyan student at Colorado State University. The Libyan is one of a growing number outside the country who oppose Qaddafi's rule. When arrested, Tafoya, who traveled to Libya three times last year, had Ed Wilson's business card in his possession with telephone and telex listings in Tripoli, London and Washington for one of Wilson's Swiss-based companies. Tafoya's links to Wilson are still being investigated.

Colonel Qaddafi is relentlessly anti-Israel, supports the most extreme factions in Syria and opposes the moderating influences of Jordan's King Hussein and Egypt's Anwar el-Sadat as part of his campaign of political expansion in North Africa. Qaddafi's ambitions were strengthened early this year when he successfully invaded Chad, seizing an area believed to be rich in uranium ore. The war also meant more profit for Wilson, who has established his own trading company in Tripoli, known as Meprico, to supply Qaddafi's army. Libya, relying on its estimated \$25 billion in annual oil revenues, is a major purchaser of Soviet arms, and more

than 5,000 Warsaw Pact military advisers are believed to be on duty with Qaddafi's 60,000-man army.

□

A former high-speed-communications and computer-technology expert in the C.I.A., Kevin Mulcahy was no innocent when he came forward about the way the export-import business had worked. He had gone into business with Wilson and Terpil at a high guaranteed income. Within three months, Mulcahy realized that his partners were routinely selling restricted military and communications gear. He himself offered to sell such sophisticated equipment as second-generation computer systems and coded communications machinery. Mulcahy did not hesitate in his talks with the authorities to acknowledge his own role in questionable activities, which included the sale of embargoed ammunition to South Africa. In all of these dealings, he says, he believed or wanted to believe that Wilson and Terpil were somehow part of a covert C.I.A. operation.

Today, Mulcahy is an angry and frustrated man. He believes his life is in danger, a belief shared by Federal officials, and he is deeply disturbed by what he regards as a monumental lack of resolve, competence and communication within the Federal Government in handling the case. It took nearly four years to indict Wilson and Terpil in Washington, on charges that include illegal export of explosives, failing to register as a foreign agent, and conspiracy and solicitation to commit murder. Despite fugitive warrants, the Government has been unable to apprehend them at a time when their travels in and about Europe, the Middle East, Africa and the United States have been observed by many people. Last winter, more than six months after his indictment, Wilson was seen by a business friend in Blackie's House of Beef, a Washington restaurant, with a group of his former employees; it is not known how he entered the country. Mulcahy, meanwhile, has been forced to lead a life of furtiveness. "I've had five years of indecision, contradiction and waiting for the day that this chapter of my life ends," he says. "The Government keeps telling me, 'We're on top of it; we're on top of it.' Yet Wilson and Terpil remain at large, and many of their operations, which clearly seem to be working against the interests of their own country and, indeed, world peace, are believed to be continuing at this moment.

Kevin Mulcahy, now 38, grew up vintage Americana in suburban Washington: altar boy, Eagle Scout, varsity basketball, class vice president. He was a son of Donald V. Mulcahy, a 22-year-career senior official of the C.I.A., four of whose six children were also employed by the agency. Kevin, the oldest child, began working full-time for the C.I.A. in 1963, after serving as an airborne radio operator in the Navy. He became a communications and computer expert and worked on highly classified programs that he will not talk about today. In 1968, he resigned

Frank E. Terpil (left), accused of illegally exporting explosives for terrorism, at a picnic along the Thames in London, with Kevin Mulcahy (center) and Sven Hoffmeyer (right), an international arms dealer, in the summer of 1976. Present at the same party, Mulcahy later learned, was Carlos Sanchez, known to authorities as "the Jackal," who is believed to have planned the 1972 My Lai massacre of March. Top right: Col. Muammar el-Qaddafi



from the agency to take a position in the electronics industry. There followed a succession of increasingly responsible jobs in the computer industry, a serious drinking problem that drove him into Alcoholics Anonymous, and a painful divorce.

By the fall of 1974, Mulcahy had come to grips with his alcoholism and, having left the computer industry, began working in Virginia as a counselor in a drug- and alcohol-treatment center. By 1975, he was trying to set up a series of halfway houses and was scrambling for Federal grants. Mulcahy rented a house by chance from a Barbara Wilson — Edwin P. Wilson's wife. Mulcahy became friendly with her and eventually was invited to dinner at the Wilsons' newly purchased, luxurious 1,500-acre farm in Upperville, Va. Ed Wilson, now 52, was well known inside the C.I.A. as a skilled and trustworthy operative. Wilson, who began his export-import business in the early 1970's while working as a consultant for a top-secret Navy intelligence unit, had played a role in the Bay of Pigs and other undercover operations in his long C.I.A. career as a contract agent. Mulcahy was impressed.

Over dinner, Wilson made it clear that he knew pretty much all there was to know about Kevin Mulcahy, about his former employment with the C.I.A. and his current work with teen-agers. A few months later, Wilson made an offer Mulcahy would not refuse: If Mulcahy would join his arms-sales business in Washington and remain for one year, he could then have as a bonus a nine-bedroom farmhouse Wilson also owned and use it as a halfway house for troubled youths. Mulcahy's guaranteed \$50,000 annual income would be supplemented by commissions and expenses. "I had no suspicions at all about the job," Mulcahy recalls, and he began working hard. "I was putting in 18 hours a day at first, dealing with 10,000 suppliers and inquiries about canned food, parachutes — any kind of equip-

ment, from machine guns to aircraft. There was no reason for suspicion in those weeks." Most of the business was aboveboard and involved the sale of highly technical equipment. Mulcahy was responsible for arranging export licenses, international letters of credit and shipping, and also for determining which manufacturers' equipment would meet the specifications of the order.

Mulcahy obviously passed muster. In the early spring of 1976, Wilson walked him to another office a few blocks away, in downtown Washington, and introduced him to Frank Terpil, now 41. Terpil had served about seven years as a communications technician for the C.I.A. but was forced to resign in 1971 after a series of embarrassing private escapades, including an attempt to smuggle contraband liquor into India. Unlike Wilson, who mingled easily and effortlessly with senior C.I.A. officials, corporate executives and important members of Congress, the Brooklyn-born Terpil was a street operator who had been arrested twice for illegal trafficking in arms. Mulcahy knew nothing about Terpil except that he had worked overseas for the C.I.A.

The three men agreed to set up a new company, to be known as Inter-Technology Inc., for the specific purpose of selling high-speed communications gear and computers to foreign countries. The equipment was legally purchased from American companies. Each man was to be a one-third partner of Inter-Technology, which, it turns out, was one of scores of Wilson-Terpil companies scattered in corporate records throughout the United States and Europe.

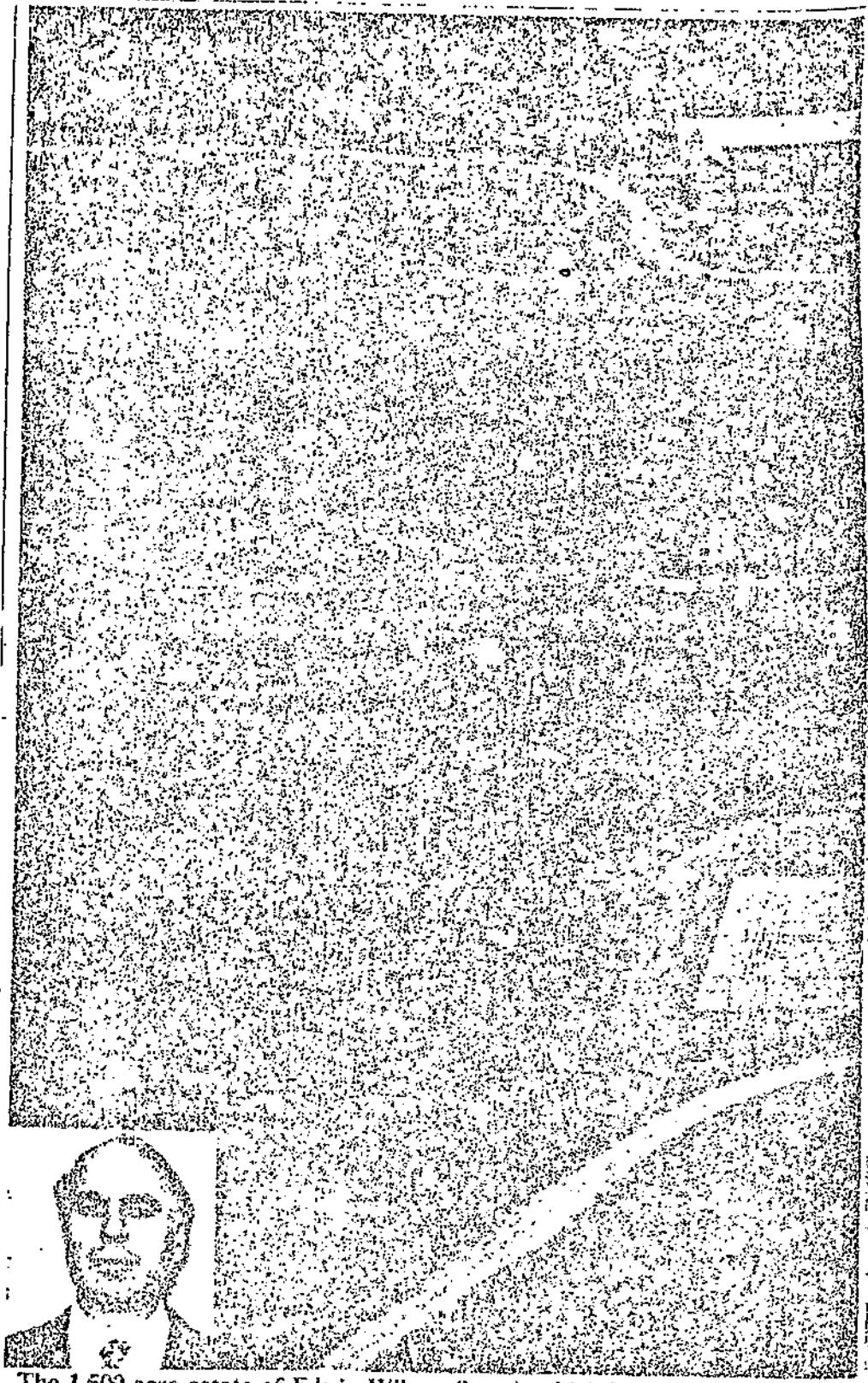
If Mulcahy had any doubts about his new job, he suppressed them by believing — or wanting to believe — that Ed Wilson was still linked to the C.I.A. "Ed would parade his contacts in the C.I.A. with the people he was doing business with to impress them that he was still C.I.A.," Mulcahy says. "He would suggest he was still under deep cover." Often on Friday nights, Wilson made it a point to go drinking at bars in suburban Virginia known to be after-hours hangouts for C.I.A. officials on duty at the agency's headquarters in McLean. Mulcahy, the new partner, began going along. "I thought he was agency," Mulcahy says of Wilson. "I had no question in my mind."

A few days after the new partnership was formed, Mulcahy discovered sales orders showing that Wilson and Terpil were in the process of selling machine guns and silencers to an arms dealer in Zambia. He was bothered by the sale of the silencers for he knew they had only one purpose — killing without drawing attention to the killer. He telephoned the F.B.I. and later showed copies of the sales orders to agents in the Bureau of Alcohol, Tobacco and Firearms (B.A.T.F.), one of whose functions it is to monitor illegal arms deals and report on impending sales. He also asked about his new partners. The authorities said that the sale to Zambia was legal and that they had no derogatory information about Wilson and Terpil in their

files. "I said to myself, 'Christ, this has got to be an agency operation,'" Mulcahy recalls. "These guys are buying and selling silencers, and the F.B.I. and B.A.T.F. give them the O.K. So I'm feeling pretty good: I'd gone to the Federal authorities, shown them documents and they said Wilson and Terpil were clean."

Wilson's contacts seemed inexhaustible. Ed Wilson was friendly, as Mulcahy and Federal investigators were later to learn, with many senior legislators, including Senators Strom Thurmond of South Carolina and the late John L. McClellan of Arkansas and Representative Silvio O. Conte of Massachusetts. He could telephone a contact in the Internal Revenue Service and within 15 minutes have intimate financial details on a potential customer. He was able, with a telephone call to Washington's police headquarters, to obtain registration information on a local automobile license plate. But sometime in late May of 1976, Wilson went a step further: He telephoned Theodore G. Shackley, a prominent C.I.A. official who was then serving as the assistant to the deputy director for clandestine operations — one of the most powerful posts in the agency. Shackley was renowned for his toughness and efficiency as a station chief in Laos and in South Vietnam during the height of the Vietnam War, when the C.I.A. was deeply involved in its still controversial Phoenix assassination program. He later served in Chile, when the C.I.A. was assigned the task of interfering with the Government of Salvador Allende Gossens.

Wilson arranged a meeting at Shackley's home a few nights later after work, bringing along Mulcahy and an American, Harry Rastatter, one of Terpil's business associates who had just returned from a business trip to Egypt, Turkey and Iran. Rastatter had obtained some information from Savak, the Iranian internal police, and was willing to pass it along to the C.I.A. Shackley was introduced by Wilson to Mulcahy and recalled knowing his father, who earned the National Intelligence Medal, the agency's highest reward, before retirement. There was talk about military and intelligence needs in Iran, Turkey and Libya. Wilson told Shackley that he and Terpil were planning to travel to Tripoli and meet with Qaddafi. "By now I'm convinced that the whole thing is an agency front," Mulcahy recalls. "I thought Ed was in bed with the C.I.A." Some Federal officials say they are still investigating Shackley's personal and financial involvement with Wilson. Shackley has acknowledged to Federal authorities that the meeting described by Mulcahy as well as other meetings with Wilson did take place, but Shackley insisted that at no time did Wilson receive any authority or sanction from the C.I.A. for his work in Libya. He said his contacts with Wilson were solely for the purpose of obtaining any stray bits of intelligence Wilson might have picked up. Wilson and Shackley had worked to



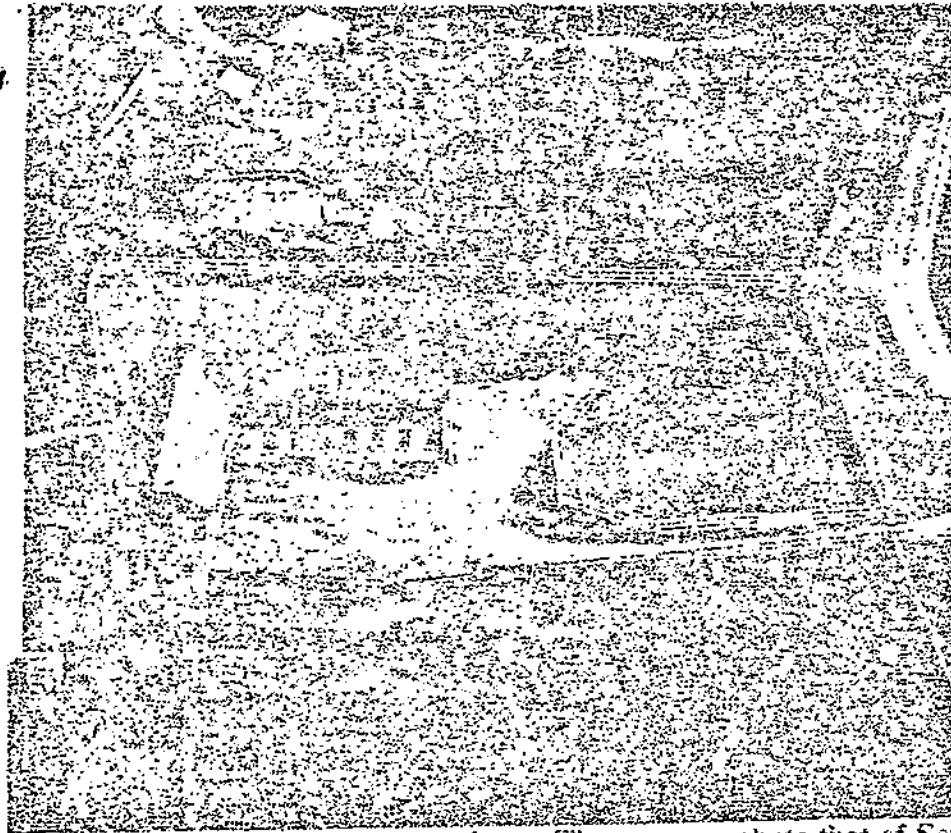
The 1,500-acre estate of Edwin Wilson (inset), which he bought while a

gether in 1960 on the Bay of Pigs operation. Shackley, in an interview, confirmed Mulcahy's account of the meeting and said that he, like Mulcahy, was unaware then of Wilson's plans for supporting Qaddafi's terrorist program. Shackley said his purpose in talking to Wilson and Rastatter was to collect information from non-C.I.A. sources. "I talked to them solely not to be a captive of the system," he said. "Wilson was a guy who knew about a lot of things. He was a good contact."

After the Shackley meeting, Mulcahy was brought into the Libyan operation. Muammar el-Qaddafi had placed a purchase order with Wilson and Terpil for hundreds of thousands of timers capable of detonating explosives at some specifically delayed time. Wilson and

Terpil did not tell Mulcahy, however, the real purpose of the devices; instead he was led to believe that Qaddafi needed them to clear mines from harbors and battlefields by safely blowing them up. The mines, so Mulcahy was told, had been left from the 1973 Arab-Israeli war. The timers were to be demonstrated to Qaddafi's senior military and intelligence aides that June in Libya, and Wilson and Terpil had to find an immediate manufacturer. They decided to exploit a long-time C.I.A. contractor, the American Electronic Laboratories of Colmar, Pa., and Falls Church, Va., which had routinely been providing the agency with some of its most highly classified electronics and communications gear.

American Electronic was a logical



medium-level Federal intelligence employee. The property abuts that of Se

starting place. In May 1976, Wilson had visited the company's plant in Falls Church in an effort to persuade its officers to retain his firm to represent its products around the world. Wilson brought Mulcahy and Terpil to the meeting, as well as an active C.I.A. employee, Patry E. Loomis, an agent assigned to the Far East who was operating under cover for an aircraft company. One of Loomis's functions was to serve as a liaison officer between C.I.A. headquarters and its overseas stations; he was responsible for establishing personal relationships with senior military and Government officials in the Far East. Loomis added credibility to Wilson's pitch. "Terpil was there to impress them with his contacts in the Middle East," Mulcahy recalls. "Wilson

was there for Europe and Loomis for the Far East. I was there because it was told to them that I was ex-C.I.A. and would remain on-site and accessible while the others traveled."

Loomis, who had been illegally moonlighting for Wilson for some time, was one of dozens of former Government employees who had been recruited by Wilson and Terpil. Government investigators have learned that Wilson's technique, as utilized in his approach to American Electronic, was to seek out intelligence and military officials with close relationships with both vital suppliers and foreign governments. These men would be retained to sell goods, ranging from canned foods to weapons, to those foreign countries. Income for his salesmen, as well as for Wilson, was

and it was good. In June, he flew to England to set up an exhibition at a security show at Brighton. The rooms were first class. So was the food, and there seemed to be a constant series of parties, and party girls. One of Mulcahy's first customers at the security show was a Syrian company, Abdallah Engineering, which was interested in purchasing high-speed communications equipment — gear so sensitive, Mulcahy thought, that the State Department would never permit its export. "Frank told me, 'Don't worry about it. We don't need licenses. Just get the order,'" Mulcahy recalls. "By now it was obvious that Wilson and Terpil had a wide latitude for the agency."

The equipment included encoding de-

vices and radio monitors capable of tracking, intercepting and interpreting encoded signals. There was a meeting with representatives of the Irish Republican Army, who wanted American-made M-16 rifles. Mulcahy learned that such weapons could be found in plentiful supply; North Vietnam had sold its surplus weapons — seized in huge quantities after its army overran South Vietnam in 1975 — to Samuel Cummings of Interarmco, the European-based arms dealer. It was in England also, Mulcahy says, that Terpil asked him if he wanted to earn \$5,000 on his return flight to Washington by detouring to Cairo to deliver a "cold gun," one with no identifying serial number. Mulcahy refused to deliver the weapon, but did

THE MAN WITH THE CONTACTS

Edwin P. Wilson is invariably depicted by former associates as a charming, charismatic, effective, rough-and-ready, 6-foot-4 swashbuckler who excelled in his military and intelligence career. But the real reasons for his success as an international weapons dealer are the contacts he has built up during more than 20 years of work with United States Government intelligence services.

Wilson went to work for the C.I.A.'s Office of Security in 1951 and, after serving in the Marines, became a full-time C.I.A. contract employee in 1955. In the late 60's, he helped organize a Washington firm called Consultants International Inc. for the C.I.A. and the Navy. The firm's ostensible purpose was to conduct export-import operations, but that function was a cover for classified intelligence operations.

Over the next few years, his intelligence activities were combined and mingled with his private operations. He hired a number of associates, many of them with military or intelligence backgrounds, and, according to Federal officials, was routinely receiving huge kickbacks from American manufacturers and foreign governments on his procurement contracts.

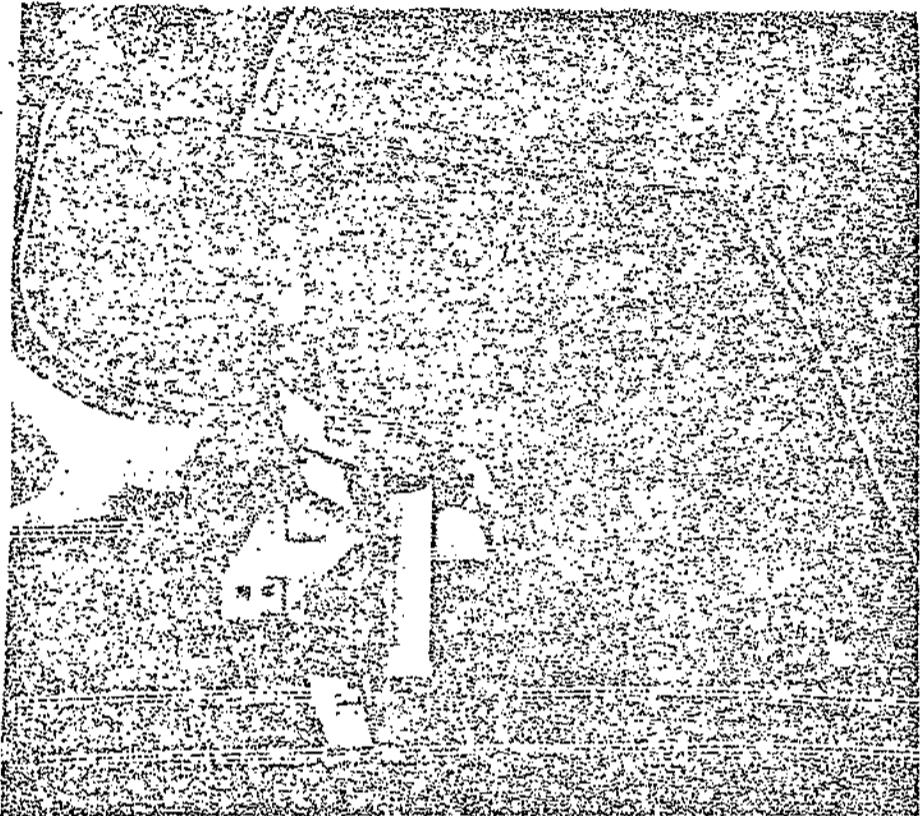
The men working for him were convinced that he was still active in C.I.A. intelligence operations. "I thought he was reporting directly to the President," one former associate recalls. "Ed still must be sanctioned by the U.S. Government. The people I met were impressive. All of a sudden I'm on a first-name basis with big names in Congress and the Senate. It was always like the Government was supporting us." Robert Keith Gray, an influential public-relations man known for his close ties to the Eisenhower, Nixon and Reagan Administrations, was among those listed as a member of the board of Consultants International for five years, beginning in 1970. However, Gray, who served as co-chairman of Reagan's inaugural Committee, expressed sur-

prise in an interview upon being told of his official listing. "I never knew I was on the board," Gray said. "I never was invited to a board meeting." He acknowledged that he has had a social and business relationship with Wilson, whom he described as "charming and very much a red-blooded American."

In 1971, Wilson dropped his C.I.A. connection and was a part of Task Force 157, a secret Navy intelligence unit that employed 50 to 75 agents to monitor and collect information on Soviet shipping. It reported not only on routine cargo items but also watched for the covert shipment of military goods and nuclear weapons. The unit also was charged with the responsibility of picking up intelligence operatives from Taiwan and secretly ferrying them inside mainland China, where they would implant sensitive seismic monitors and radio equipment. Those operations were stopped after President Richard M. Nixon's visit to Peking in 1972, and C.I.A. officials were astonished to learn later that some of the sensitive equipment, designed solely for use inside China, was appearing for sale in the international arms market.

Wilson's first C.I.A. assignment, in the 50's, was to infiltrate the Seafarers International Union, in which he was eventually appointed to a number of official positions. He also was involved in Congressional lobbying on behalf of the union and apparently began then forming his close relationship with a number of influential members of Congress. Wilson became a C.I.A. specialist on maritime issues and was involved in the procurement of equipment for clandestine Navy operations. During the Bay of Pigs, he was assigned as a paymaster and handled procurement as well. He later served in Southeast Asia and Latin America.

A full accounting of Wilson's connections and business activities may never be known. He has boasted of having a controlling interest in more than 100 corporations in the United States and Europe. —S.M.H.



Senator John Warner and Elizabeth Taylor, in the Virginia hunt country.

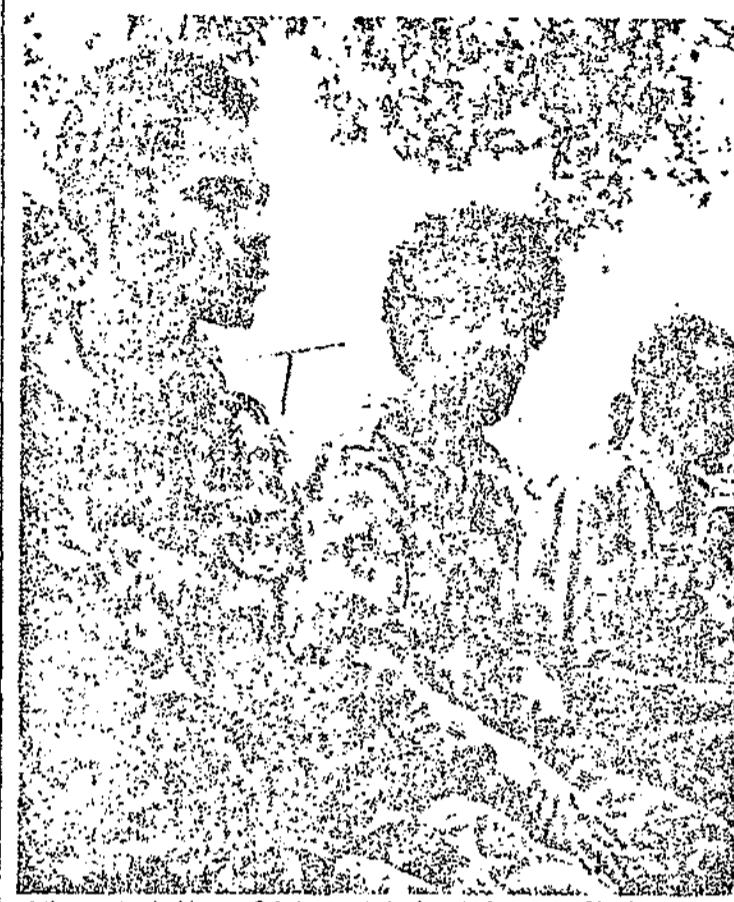
extremely high, in part because the sales were often contingent on under-the-table kickbacks to Wilson's company and to foreign officials.

No agreement was reached between Wilson and senior officials of American Electronic at their meeting, but Wilson and his associates were able to leave the impression that their work was not only highly profitable but also had been officially sanctioned by the Government. In June, when the 10 prototype timers were needed, another series of meetings was set up in a Virginia bar involving three of Wilson's employees, along with William Weisenburger, then an active-duty C.I.A. official, and two employees of American Electronic, one of whom was another C.I.A. official, then working under cover. Weisen-

burger and the American Electronic men agreed to work privately over the weekend to produce 10 prototype timing devices at the inflated cost of \$1,500 each (10 times the actual cost). Federal authorities later concluded that these men knew that there had been no official C.I.A. authorization for the job, and that senior officials of American Electronic had not known of the moonlighting. It was a project that in the months ahead struck Mulcahy as wildly ironic: He knew that many of the company's senior officials were Jewish and, he now says, "You can bet they wouldn't do anything for Libya."

□

Mulcahy was beginning to get a taste of life as an international salesman,



Libyans (aided by ex-C.I.A. men) during their recent Chad invasion.

learn months later that Qaddafi had provided Terpil and Wilson with a \$1 million contract to assassinate Umar Abdullah Muhayshi, a Libyan defector who had plotted to overthrow Qaddafi's regime. The assassination assignment had been subcontracted by Wilson to three anti-Castro Cubans in Miami with whom he had once worked in the C.I.A. "Frank was playing both ends against the middle," Mulcahy recalls. "He was setting up an elaborate security system for the guy in Egypt to protect him while at the same time trying to bump him off."

□

Mulcahy and Terpil got along well and the two men exchanged many confidences during their trips together. "Frank tends to talk a lot; he likes to name-drop," Mulcahy says. "What charges Frank's batteries is the thrill of the chase, the excitement, being on the periphery of power. He thrives on it." In time, Mulcahy said, he came to realize that there was more truth in Terpil's seemingly wild stories than he had thought.

Wilson is more discreet and far more dangerous, Mulcahy said. "Ed is devious and cunning and he's living a lie — that he is the most important human being alive. He'll use anything to manipulate people or events to get them to come

out in his favor. He's absolutely brilliant in the way he sets a deal up, puts people together and parcels out information. Ed compartmentalizes his own operation the same way the agency does. It allows him to play both ends against the middle and come out the winner. If Ed comes back and goes on trial, he's going to use every bit of information he's stored up for years to get the C.I.A. in court and put the agency on trial instead of Ed Wilson." In fact, Wilson's attorney in Washington, Seymour Glanzer, has repeatedly told Federal prosecutors that the whole story of his client's involvement in Libya has not been aired. Glanzer, in a telephone interview, refused to comment. But the prosecutors have inferred from conversations with him that his defense will be: Wilson is still at work for the C.I.A. There is no known evidence that this is the case, however.

Mulcahy immediately sensed Wilson's essential toughness, but there was nothing unusual about such men inside the C.I.A., and it was a characteristic that could be admired. Mid-1976 was a period of travail for the C.I.A., which was under attack in the press for its illegal domestic spying activities and under investigation by the Senate Intelligence Committee for its foreign assassination efforts.



A photograph identified by a Paris magazine in 1979 as that of the Jackal — the wanted international terrorist Carlos Ramirez.

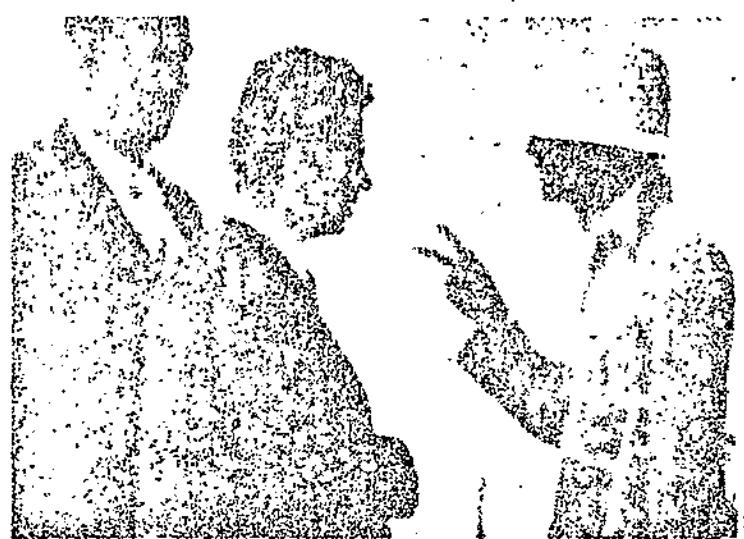
Mulcahy learned, shortly after joining Wilson and Terpil, that President Ford had placed severe new restrictions on clandestine C.I.A. activities. Wilson and Terpil suddenly became more legitimate in his eyes: "I thought it was logical that the agency would set it up this way and have their people on the street freelancing."

During that summer, Mulcahy edged closer to the line of illegality and, in at least one case, crossed it. He recalls that Wilson and Terpil were selling munitions, communications equipment and highly restricted night-vision devices without preliminary clearance from the Office of Munitions Control in the State Department and the export control division in the Commerce Department. In one case, Wilson and Terpil purchased a United States Army vehicle equipped with night-surveillance equipment for shipment to Libya, in direct violation of all regulations. To avoid any possible problem, the vehicle was first sent to Canada and transshipped from there to Tripoli. The risks of such flagrant activity were high, but so were the rewards. The vehicle cost about \$60,000 to purchase in the United States and was sold to the Libyan Government by Wilson and Terpil for \$990,000, Federal prosecutors later learned. Similarly, Terpil and Wilson provided Qaddafi with

hundreds of closely controlled and sophisticated infrared night-vision devices for M-16 rifles, which were primarily designed for use by snipers in warfare. Not all such sales went to Libya. Mulcahy says he was directly involved in the illegal sale of 2,000 rounds of ammunition to the South African Government, and he used falsified documents to label the ammunition as "plumbing fixtures." This and other sales, he says, were arranged through Sven K. H. Hoffelner, an Austrian arms dealer who also owns a successful group of restaurants in London. Hoffelner had established a close working relationship with Terpil by the time Mulcahy joined the operation.

□

In July 1976, after his return from England, Mulcahy learned that only six of the 10 timing devices sent to Libya had worked. The demonstration of the devices was made in Libya by John Henry Harper, who had spent more than 20 years as a bomb and ordnance technician for the C.I.A. and who had joined American Electronic after he retired. Two of the timers had failed, Mulcahy was told, because Harper had miswired them. Libya's reaction to the demonstration was puzzling to Mulcahy: Although nearly half the devices had failed to work, the



Officials (left) with Arab terrorist before the 1972 Munich massacre.

Libyans were still willing to order 100,000 for immediate delivery. A few weeks later, Terpil returned from a visit to Libya with an increase in the order to 300,000 timers. "I didn't get suspicious," Mulcahy recalls, "until Frank came in with the order for 300,000. I knew damn good and well that there was no way there was a need for 300,000 timers—there weren't 300,000 mines in the harbors and deserts from the Six-Day War as well as World War II."

At this point, Mulcahy understood that Wilson's story about mine-clearing in Libya was false, but he thought it was shielding a C.I.A. operation, and not serving as a cover for a terrorist-support program. The cover story was beginning to erode. Whatever concerned Mulcahy was quietly suppressed over the next few weeks, however: "I was impressed by the money and the possibility of making a fortune."

By this time, it was clear that the senior officers of American Electronic could not be persuaded to build 300,000 timers without verifying the order with the C.I.A. There was yet another scramble: This time to find a manufacturer who could begin delivering the timers within 45 days. Another Friday night meeting in a Virginia bar was arranged with Mulcahy and representatives of another long-time C.I.A. supplier, Scientific Communications Inc. of Dallas. Terpil had found the company, whose president, Joe L. Halpin, later agreed to manufacture 500 prototype timers within 30 days. At the Friday night meeting was William Weisenburger, then a branch chief in the C.I.A.'s Technical Services Division — the group responsible for producing the special weapons and safety de-

vices that have been popularized by the James Bond movies. Thomas G. Clines, then a senior official in the C.I.A.'s Office of Training, also was in the bar that night, sitting with Ed Wilson. Mulcahy spent the night table-hopping as the manufacturing plans were worked out. Clines was well known inside the agency for his closeness to Ted Shackley. Like the others, Clines had played a role in the Bay of Pigs. After Shackley's retirement from the C.I.A. in 1979, he and Clines would set up a consulting firm.

Everybody smelled the big money that night in the bar. Mulcahy later learned that the final contract with Qaddafi called for a total payment of \$35 million for 500,000 timers whose cost to supply, he knew, would be somewhere around \$2.5 million. Even in the international-arms business, profits like that are not easy to come by.

Wilson's major concern was time; he had promised the Libyans that he would set up a manufacturing laboratory near Tripoli for the production of assassination weapons in August. Qaddafi, in turn, promised to pay him \$1 million in cash immediately upon arrival of the first batch of timers, explosives and other equipment that would be needed. Manufacturing the weapons themselves in Libya would be no problem; men such as John Harper, who was paid more than \$2,000 a week by Wilson and Terpil, agreed to go to Libya and begin training Libyans in the art of disguising explosives in ashtrays, flowerpots, lamps and other household goods that could be triggered by delayed timing devices. Scientific Communications came through on its promise to deliver the proto-

type timers within 30 days. The Texas company had handled legitimate and sensitive contracts for the C.I.A., but this one was different and the firm's president, Joe Halpoin, knew it. He personally delivered the timers, hidden in plastic-prescription bottles for export to Libya, to a motel near C.I.A. head-

quarters, where they were picked up by Wilson and Mulcahy. Far more difficult were the issues of where to purchase the volatile chemical explosives needed for the production of the assassination weapons and how to ship them into Libya. The necessary explosives included TNT and a variety of lethal plas-

triques — among them RDX, formally known as cyclotrimethylenetrinitramine — which were designated as Class A explosives by the Department of Transportation and could not be shipped on passenger and cargo aircraft. Wilson and Terpil again reached into the ranks of C.I.A. contractors and

**"Each time we come to Bermuda,
we find some marvelous little spot
we never knew existed."**

Harry and Jeannette Greger on their 14th visit to bermuda.

"The day we visited St. George's,
we made a lot of new friends.
They make you feel so at home here."

"It's incredible, the lushness and
the beauty, less than 2 hours from the States."

BERMUDA
Get away to it all!

found a California firm, J.S. Brower and Associates of Pomona, which agreed to supply the chemicals, all of which were considered defense articles that could not be exported without Federal licensing.

One problem remained: how to get the timers and explosives into Libya. In early August, 1978, Mulcahy attended a meeting at the offices of Inter-Technology in Washington with a cargo sales manager of Lufthansa German Airlines, which has passenger service from Germany to Tripoli. The sales manager, Walter Doerr, categorically refused to ship the explosives, legally or otherwise, on a passenger craft. And he refused to charter a special cargo plane because of the high risk of explosion. Later that day, Terpil arranged a meeting with Jerome S. Brower, the 61-year-old president of Brower and Associates, who was a highly respected figure in his industry (and later was asked to advise Congress's Office of Technology Assessment on a proposed method of marking and tracing explosives used in international terrorism). Brower was shown a list of all the chemicals that Inter-Technology wanted to purchase for the Libyan operation. Mulcahy recalled that Brower immediately exclaimed: "Hey, you don't need all this stuff for mine clearance."

Wilson explained that the company was setting up a laboratory in Tripoli and doing some demonstrations work. "He didn't say precisely what we were doing," Mulcahy recalls, "but it was obvious. Wilson went further than I'd ever heard in explaining the scope of the entire project. There was an enormous potential for follow-up business which removed any inhibitions Brower had." Mulcahy marveled at Wilson's ability to handle Brower: "Brower had never done any business with either of these guys before and here he is agreeing to sell and ship explosives to Libya." Brower immediately raised his price and demanded partial payment in advance. Wilson and Terpil agreed to pay nearly \$38,000 on account, Mulcahy says, and the California businessman "called his plant, talked to his wife, Peggy, and his plant manager and told them how to pack the chemicals."

RDX, the most lethal and unstable material, was to be placed inside 55-gallon drums in webbing and the drums then were to be filled with a gel substance. The explosives were to be shipped East, to Dulles Airport, marked as "industrial solvent," on the first available passenger flights, Mulcahy recalls. Once at Dulles, they were consolidated into one shipping container, along with the timers and the industrial tools and workbenches needed to set up the explosives laboratory in Libya. Then they were forwarded to Europe for transshipment by Lufthansa passenger planes to Tripoli without knowledge of the airline. All of the men involved in the meeting in Washington understood the implications of what they were doing, Mulcahy says: "The nitro could have blown if the plane hit an air pocket."

Brower was indicted in April 1989.

(Continued on Page 72)

Continued from Page 68

along with Wilson and Terpil, for his role in illegally conspiring to ship the explosives with knowledge that they would be used to "kill, injure and intimidate individuals." After pleading guilty and agreeing to cooperate with Federal investigators, he was fined \$5,000 last December and sentenced to a five-year prison term, with all but four months suspended.

The meeting with Brower had resolved the final stumbling block and Wilson flew to Libya, where he was to conclude the arrangements for establishing the weapons laboratory and to be on hand to insure the careful handling of the shipment of "industrial solvent" from the United States. He also would receive the promised million-dollar payoff from Qaddafi.

Kevin Mulcahy, meanwhile, flew to Europe for a meeting in London with Terpil and a group of British arms dealers. There was the inevitable party early one balmy Sunday afternoon, thrown by Sven Hoffelner, the trade link to South Africa. Hoffelner had rented a barge and as it was being poled along a canal near Oxford in the bright sun, Mulcahy began taking casual snapshots of the revelry. Terpil saw his camera, Mulcahy recalled, and "went berserk. He got all red in the face; he was really, really nervous and told me to put the camera away before 'you end up dead.' "

Later that evening, Terpil explained that one of the guests on the barge was Carlos Ramirez, known to police throughout the world as "the Jackal" — the international terrorist believed to be responsible for planning the 1972 Olympics massacre in Munich, a deadly raid on the Fiumicino Airport in Rome and numerous aircraft hijackings. There was no photograph of Ramirez in existence, Terpil told Mulcahy; the "Wanted" posters on display at airports throughout the world contained only a composite drawing. Terpil also told Mulcahy that Ramirez was living in barracks No. 3 at the former Wheelus United States Air Force base in Libya. Terpil seemed awed by Ramirez, who was accompanied at the party by Sayad Qaddafi, chief of Libyan intelligence, identified by Terpil as Qaddafi's cousin and the second most powerful man in Libya.

Mulcahy was now in far too deep and he knew it.

It was late August and John Harper and other Wilson-Terpil employees were at work in Tripoli setting up the munitions laboratory for terrorist bombs and a training program for their effective use. Wilson and Terpil made it clear to Mulcahy that they did not want him to go to Libya. Mulcahy kept his now grave doubts to himself and continued on his business trip, moving on to Copenhagen and another series of meetings. Terpil returned to Libya, and he and Wilson suddenly dispatched an urgent cable to Copenhagen: Mulcahy was to break off his trip and return to Washington to open negotiations there with the General Dynamics Corpora-

tion for the purchase of one of its Red-eye ground-to-air missiles. General Dynamics had advertised in trade journals that it had 18 Redeyes for sale to legally acceptable buyers. The missile, which could not be exported to Libya under the law, is shoulder-launched and has a heat-seeking component that enables it to track and destroy aircraft in flight. It had been used extensively and successfully by the Israelis during the 1973 war. "My problem was not to worry about the paperwork," Mulcahy says. "Terpil and Wilson had a pilot in Pennsylvania who would fly anywhere. Once he got over the water" — and away from American legal jurisdiction — "he would change the paper." If the Redeye had been purchased, the pilot would simply change the intended recipient listed on the export license, from an approved ally, such as those in NATO, for example, to Libya.

Altering the State Department's export license, known officially as the end-user certificate, was considered so much a normal part of the arms business by Wilson and Terpil that Mulcahy had been authorized to quote prices 8 percent to 12 percent higher if the sale also required supply of the certificate. Mulcahy was unnerved by his sudden assignment and discussed it with an associate in Copenhagen — a foreign military attache stationed in Denmark who had a reputation for legitimate operations. "My friend told me that the only reason Libya would want one Redeye was for use in a terrorist attack," Mulcahy says. "We speculated that Qaddafi probably wanted to be the first to shoot down a 747. To hit a fully loaded passenger plane in flight would be bigger than the destruction of planes at Dawson Air Field in Jordan," when P.L.O. terrorists in 1970 blew up three international airliners and held scores of passengers hostage.

Mulcahy had a leisurely dinner and began walking the streets of Copenhagen. He couldn't sleep. He recalled a trip he and Terpil had taken to a firm called Defense Apparel in Hartford, Conn., where Terpil discussed the possible purchase of up to 100,000 suits that would protect humans exposed to radioactivity. Could the Redeye carry a nuclear warhead? He knew now he would never place the Redeye order.

"I watched the sunrise come in Copenhagen," Mulcahy recalls, "and knew what I had to do — get back to Washington fast. I had to find out what paperwork existed" in the Inter-Technology office he shared with Wilson and Terpil. "I felt that Frank and Ed were giving Qaddafi any goddamn thing he asked for." ■

NEXT WEEK

Kevin Mulcahy goes underground to save his life. The Government drags its feet in the arms-export investigation, while some former American C.I.A. and military men continue exporting the hardware of terrorism — timers and explosives, for example — and train Libyans for assassination.

FBI

TRANSMIT VIA:

Teletype
 Facsimile

PRECEDENCE:

Immediate
 Priority
 Routine

CLASSIFICATION:

TOP SECRET
 SECRET
 CONFIDENTIAL
 UNCLAS E F T O
 UNCLAS

Date 7/15/83FM ALEXANDRIA (P)

DECLASSIFICATION AUTHORITY FROM:
 FBI AUTOMATIC DECLASSIFICATION GUIDE
 DATE 08-17-2017 BY: C28W34B64
 FBI INFORMATION ONLY

TO DIRECTOR PRIORITY *36**6P*

BT

UNCLAS

~~ALL INFORMATION CONTAINED
 HEREIN IS UNCLASSIFIED
 EXCEPT WHERE SHOWN
 OTHERWISE~~

ATTENTION: TERRORISM SECTION, SSA

FRANCIS E. TERPIL-FUGITIVE; ET AL; RA-LIBYA; CONSPIRACY

THE BUREAU IS REQUESTED TO EXPEDITIOUSLY TRANSMIT THE
 FOLLOWING TO LEGAT, ROME:

ON THIS DATE AUSA DISTRICT OF D.C.,
 ADVISED HE HAD BEEN IN CONTACT WITH A U.S. CITIZEN,
 WHO IS A FREE LANCE REPORTER WITH AN OFFICE IN WASHINGTON, D.C.

ADVISED THAT WHILE IN ROME, ITALY, RECENTLY HE HAD
 BEEN IN TELEPHONIC CONTACT WITH FRANK TERPIL. WAS
 NOT ABLE TO ELICIT FROM WHERE TERPIL WAS, BUT HE DID FIND
 OUT THAT WAS STAYING AT THE BERNINI (PH) HOTEL IN ROME.

WAS IN ROME BEGINNING WITH THE LAST WEEK OF JUNE AND
 STAYED THROUGH AN UNDETERMINED DAY IN THE FIRST WEEK OF JULY.

1-Alexandria

ABL:mbe

(1)

Approved: John L. Soto

Transmitted

010

(Number)

502

(Time)

Per

Con

~~Classified by SP-5 CI/DM/S
 Declassify on: 0-60
 4/15/88~~

b3
b7Eb6
b7Cb6
b7Cb3
b7E

FBI

TRANSMIT VIA:

Teletype
 Facsimile

PRECEDENCE:

Immediate
 Priority
 Routine

CLASSIFICATION:

TOP SECRET
 SECRET
 CONFIDENTIAL
 UNCLAS E F T O
 UNCLAS

Date _____

~~SECRET~~

PAGE TWO

~~UNCLAS~~

IS APPARENTLY ATTEMPTING TO WRITE AN ARTICLE ON TERPIL FOR PENTHOUSE MAGAZINE AND WOULD LIKE TO ARRANGE A MEETING BETWEEN [REDACTED] AND TERPIL.

LEADS: LEGAT ROME, AT ROME, ITALY. CHECK HOTEL RECORDS AT BERNINI (PH) HOTEL FOR ANY LONG DISTANCE PHONE RECORDS THAT [REDACTED] MAY HAVE MADE OR ANY OTHER EVIDENCE THAT MAY INDICATE TERPIL'S PRESENT WHEREABOUTS. ~~(S)~~ ~~(U)~~

BT

b3
b7E
b6
b7Cb6
b7C~~SECRET~~ ~~(U)~~

Approved: _____ Transmitted _____ Per _____
 (Number) (Time)

FEDERAL BUREAU OF INVESTIGATION
FOI/PA
DELETED PAGE INFORMATION SHEET
FOI/PA# 1355280-0

Total Deleted Page(s) = 3

Page 5 ~ b7D;

Page 6 ~ b7D;

Page 7 ~ b7D;

XXXXXXXXXXXXXXXXXXXXXXXXXXXX
X Deleted Page(s) X
X No Duplication Fee X
X For this Page X
XXXXXXXXXXXXXXXXXXXXXXXXXXXX

[redacted]
ABL:mbe
1

~~SECRET~~ On December 6, 1983, [redacted] advised that [redacted]

b3
b7E

b7D

[redacted] will attempt to obtain the names
of Terpil's [redacted] (S) (U)

[redacted] stated he had [redacted]
on Terpil. [redacted] will initiate contact with [redacted] for
any positive information. (S) (U)

b6
b7C
b7D

DECLASSIFICATION AUTHORITY DERIVED FROM:
FBI AUTOMATIC DECLASSIFICATION GUIDE
DATE 08-31-2017 BY: C28W34B64

~~ALL INFORMATION CONTAINED
HEREIN IS UNCLASSIFIED
EXCEPT AS OTHERWISE
NOTED~~

~~Classified by Sp-sec/bw
Declassify on: QADR
4/22/88~~

[redacted]
b3
b7E
b6
b7C

(S)
285
RE

100-100

[redacted]

ABL:mbe
1

~~ALL INFORMATION CONTAINED
HEREIN IS UNCLASSIFIED
EXCEPT WHERE SHOWN
OTHERWISE~~

On January 10, 1984, [redacted] advised that [redacted]

b3
b7D

b6
b7C
b7D

Attached to this insert is a copy of the [redacted]
[redacted] a one page letter received by [redacted] and a copy
of a one page letter received by [redacted] These copies
were made available by [redacted] (S) [redacted]

b6
b7C
b7D

[redacted] had not been aware of the mail forwarding
address: [redacted] Terpil (Crossed out) SP-SCI/11
was using. (S) (U) (Crossed out) 6/23/84

Concerning [redacted] stated [redacted]

6/23/84 b6
b7C
b7D

[redacted] stated he had recently contacted [redacted]

b6
b7C
b7D

[redacted] told [redacted] he was working on [redacted]

b3
b6
b7C
b7D
b7E

[redacted]

2

b3
b6
b7C
b7D
b7E

[redacted] will maintain contact with [redacted]
any further information regarding Terpil's whereabouts. (S) (U)

The story of the CIA's
Nugan Hand Bank—an institution committed to
heroin dealing, money laundering,
arms trafficking, and covert dirty tricks.

BLOOD MONEY

BY PENNY LERNOUX

Early on a Sunday morning in January 1980, two policemen driving along a lonely stretch of highway near the Australian city of Sydney came upon a Mercedes-Benz sedan with its lights on. Inside the car slumped across the front seat in a pool of blood was the body of a middle-aged man. In the dead man's pockets the police found the business card of William Colby, a Washington lawyer who three years earlier had been director of the Central Intelligence Agency. On the back of the card was the itinerary of a trip Colby intended to make to Asia.

Next to the body was a new rifle. Alongside it was a Bible with a meat-pie wrapper as a place mark. On the wrapper were scrawled names—William Colby's and California Congressman Bob Wilson's. Wilson was then the ranking Republican member of the House Armed Services Committee.

The dead man turned out to be a Sydney merchant banker named Frank Nugan. He was a co-owner of the Nugan Hand Bank, an Australian bank with 22 branches worldwide. Investigators at first theorized that Frank Nugan had killed himself because of business troubles. Only later was it learned that among the people with whom his bank did business were a number of prominent mobsters. But this would soon seem like a minor detail. For Frank Nugan's apparent suicide triggered an international scandal that continues to this day, involving heroin dealing, arms trafficking, money laundering, the CIA, and enough high-ranking U.S. military officers to launch a major invasion.

At the time of his death, 37-year-old Frank Nugan was facing criminal charges for defrauding shareholders in the Nugan-family food business. Auditors had discovered big cash payoffs by the company to people apparently linked to drug trafficking. Three months later, after the Nugan Hand Bank collapsed, it was learned that Nugan had illegally diverted \$1.6 million of the bank's money to the family business. The bank's directors knew of Nugan's legal troubles, and one of them frequently accompanied him to the hearings that led to formal charges. This man was General Edwin F. Black, former commander of troops in Thailand during the Vietnam War and later assistant army chief of staff in the Pacific. He was then the Nugan Hand Bank's representative in Hawaii.

Frank Nugan was also in hot water with the bank's auditors, who had refused to approve the accounts for the bank's Bahama and Cayman branches. This meant that the bank was about to be decertified. If it were decertified, it would lose its commercial status with other banks and would

collapse. Stephen K. A. Hill, a Nugan Hand director who later testified that he re-wrote the books on Frank Nugan's instructions, had had no problem with the auditors during earlier meetings. On at least one occasion he was accompanied by another high-ranking former U.S.-military officer, Earl P. ("Buddy") Yates, retired U.S. admiral and former chief of staff for strategic planning with U.S. forces in Asia and the Pacific. Yates was the Nugan Hand Bank's president.

Nugan, at that time, had taken to going to church almost daily. He wrote mystical notes to himself in a Bible, which was always with him. "Visualize 100,000 customers worldwide," said one. "Prayerize. Actualize." And he spent money as if he owned the mini—\$500,000 to remodel his family's lavish waterfront home in Sydney, complete with sand for an artificial beach. On the day he died he was completing negotiations for the purchase of a \$2.2-million country estate.

If such actions reflect suicidal intent, none of Nugan's associates seemed

ALL INFORMATION CONTAINED
HEREIN IS UNCLASSIFIED
DATE 12-22-88 BY SP/CL/P

aware of it. Witnesses described Nugan as his "usual chipper self" to the very end. And one would not expect a man to go through the motions of buying an estate on the same day he intended to take his life. As shown by the papers found with his body, Nugan apparently had made plans to see William Colby the following month. And when an official inquest was held, the coroner's suicide verdict was challenged on the grounds that only a contortionist could have shot himself in the head with a rifle from the position in which Frank Nugan was sitting.

Three months after Frank Nugan's death, the Nugan Hand Bank collapsed. Three years later, the repercussions from the bank's many sordid dealings continue to be felt worldwide. What has emerged in the aftermath has grown into a fascinating, complex web of criminality and intrigue—a story that has reached the United States only in isolated bits and pieces, in part because of the U.S.-intelligence community's reluctance to help or supply information to Australian investigators.

The Australian government's investigation of the bank's dealings is still underway, and among the details that have emerged so far are the following:

- The Nugan Hand banking group participated in at least two U.S.-government-cover-action operations.
- The bank had strong links to the U.S.-intelligence community, and some of the banking group's executives were involved in large weapons shipments to American-aided forces fighting against Communist guerrillas in Angola.
- According to the report, retired Admiral Yates, while president of Nugan Hand, as part of a bank project urged a CIA contract agent to threaten the Haitian government with a coup. (Yates told the *Wall Street Journal* that the overthrow threat wasn't proposed by him but by a prospective bank client. Yates said he quickly rejected the idea.)
- Most of the bank's business was found to have been money laundering rather than deposit taking.
- The bank was also involved in dealings with international heroin syndicates, and there is evidence of massive fraud against United States and foreign citizens.

CONTINUED

The reasons U.S. intelligence has held Australian investigators at arm's length should surprise no one. As the Nugan Hand story has unfolded, the names of several leading members of U.S. intelligence have cropped up. William Colby, former head of the CIA, admitted to having met Frank Nugan in 1979. In an interview with Penthouse, he said Nugan wanted to discuss tax matters with him. He denied having had an association with Nugan at any time previous. According to an Australian government report released to Parliament last year, Ted Shackley, the former No. 2 in command of the CIA's clandestine services, is one of the leading characters whose "background is relevant to a proper understanding of the activities of the Nugan Hand group and people associated with that group." In addition to General Black and Admiral Yates, a number of retired Pentagon and CIA officials also served as executives of, or consultants to, Nugan Hand. The Australian report also states that in both cases of Nugan Hand participation in U.S. covert activity Edwin P. Wilson was involved. Wilson, Ted Shackley's longtime CIA subordinate, was convicted of illegal arms sales to Libya in 1982, and more recently of attempted murder.

For the investigators who delved into the Nugan Hand Bank's complex dealings, the experience has been like opening a set of Chinese boxes—each box contained another mystery or clue. Even the circumstances of Frank Nugan's death turned out to be peculiar. By an unaccountable oversight, the police neglected to check for fingerprints. Later, when the rifle that killed Nugan was examined, no fingerprints were found on it.

In the course of their investigations, Australian detectives have turned up an amazing collection of rogues operating on three continents, many of them doing covert dirty work linked to the CIA, others to the heroin traffic between Southeast Asia and the United States. The bank was used for a multitude of illegal and lucrative activities. Among these—in addition to the arms deals and laundering money from the heroin trade—was a successful CIA destabilization plot that brought about the fall of an Australian Labor government.

Furthermore, the Nugan Hand Bank, according to testimony, served as paymaster for CIA contributions to "friendly" politicians in Australia, and for an incredible Caribbean scheme that may have been connected to the drug trade. The bank was also used to swindle American depositors, who believed it was a safe haven for their investments because high-

ranking American generals and admirals sat on Nugan Hand's board.

As the investigations proceeded, other leading characters in the story, aside from Frank Nugan, died or disappeared. Among them was Nugan's Bronx-born partner, Michael Hand. Others took refuge in silence, denying wrongdoing.

The CIA, predictably, denied any connection with the bank, this despite the fact that records seized by Australian authorities showed that Nugan Hand had been involved in activities more pertinent to an intelligence agency than to a bank. The authorities recovered lengthy reports about political and military activities in Southeast Asia. The CIA, the FBI, and U.S. Customs all refused, on grounds of national security, to release information they held on the bank's activities. When the Australian weekly the National Times petitioned under the U.S. Freedom of Information Act for FBI records, it received only half of the 150 pages requested. And of these, most had been blacked out in heavy ink with the notation B-1, meaning that disclosure would endanger U.S. "national defense or foreign policy."

There were reasons enough for a cover-up. The U.S.-intelligence community was being linked to illegal activities and evidence was surfacing that, once again, it had allowed its agents to run amok.

The choice of a bank to front for CIA activities—instead of the fake trading companies usually favored by the agency—reflects not only the scope of Nugan Hand's operations but also the changed nature of banking. Only a bank could handle the quantities of money passing through Nugan Hand's branches, and only a bank could hide the trail. It may seem shocking to some that the U.S.-intelligence community banked with a heroin Laundromat, but again, this fact should surprise no one.

The CIA has a long history of criminal associations, and drugs have frequently played a role in covert intelligence work. The CIA's relations with criminals and drugs goes back to World War II, when U.S. Naval Intelligence and the CIA's forerunner, the Office of Strategic Services (OSS), formed a cynical alliance with "Lucky" Luciano to provide Mafia henchmen to patrol East Coast docks against possible Nazi sabotage. The CIA also shipped cash and munitions to opium growers and mercenaries in Laos and Thailand during the sixties. CIA planes then provided transport for drugs on the first leg of their journey to American cities. Although the original purpose of these al-

ances was to fight communism, the end result was that the CIA became a middleman for drug producers and organized crime. Later, as American involvement in Southeast Asia wound down, a number of CIA agents went into the drug business.

One CIA contract agent with connections to the drug trade was Michael Hand. He was a burly, tough-talking, ex-Green Beret who had been with the Special Forces in Vietnam. He had visited Australia when it was an R-and-R center for American troops.

Hand left Vietnam in 1968 and settled in Sydney. He had studied forestry and been a teacher before going to Vietnam, and he frequently boasted that he was frightened of no one, that he had killed men while outnumbered and under fire, and that he had good connections within the CIA. The latter was later confirmed by Australian investigators, who turned up the fact that he had been a contract agent.

Michael Hand was a natural partner for Frank Nugan, who was impressed by Hand's toughness and intelligence connections. Nugan had no background in intelligence, but he was a fast-talking quick learner with a flair for self-promotion.

In 1970, Nugan and Hand went into partnership as investment advisers, mostly to current or former American servicemen whom Hand had met in Vietnam or Sydney. The pair used Hand's contacts to establish a tourism, mining, and real-estate outfit called Australasian and Pacific Holdings, Ltd. The company may well have been a CIA front, since four of the 19 founding shareholders worked with Air America, the CIA airline that ran men and supplies into Laos and brought out opium. Others worked for a Continental Airlines subsidiary under CIA contract in Laos.

Three years later, the two men formed the Nugan Hand Bank. It quickly attracted depositors by offering the highest interest rates in the region, tax-free deposits, and complete secrecy. Within six years it had 22 branches around the world and was doing more than a billion dollars in business a year. But the bank's biggest profits came from money laundering. A word of explanation is required.

Professional money laundering is a huge industry—worth up to \$80 billion in the United States alone. It earns hefty profits. Nugan Hand, for instance, took 22 cents for every dollar laundered. Drug-traffic proceeds account for a large part of the laundering businesses, but legitimate businessmen and corporations also use money Laundromats to evade taxes and to establish slush funds for bribes and

CONTINUED

kickbacks. And IRS agents who follow launderers' paper trails have noted the coincidence of interests between organized crime and the CIA, which often use the same banks for illegal operations.

It may well be more than coincidence that the Nugan Hand Bank was established in 1973, when the CIA needed a Laundromat for its destabilization campaign against the Australian Labor government. This was the year when William Colby became director of the CIA and Ted Shackley replaced Colby as head of covert operations in the Far East. The Nixon administration was winding down U.S. military involvement in Vietnam, but the CIA remained active in the region, particularly in the opium strongholds of Thailand and Laos. When one of the leaders, a Thai national, was arrested in the United States for trying to smuggle 59 pounds of pure opium through New York's Kennedy Airport, the agency cited national security to squelch the case and obtain the trafficker's release.

Confidential reports by the Australian Federal Bureau of Narcotics showed that even before the bank's founding, Michael Hand had been involved with an Air America pilot in drug shipments from Southeast Asia's Golden Triangle to an airstrip on an Australian real-estate development. Given Hand's drug-and-CIA ties and the proven links between the agency and the Asian opium trade, one can see how Nugan Hand developed two parallel and perhaps interconnecting businesses: laundering CIA funds for covert operations and profiting from Asian heroin trade.

Like other bankers who have dealt with both the CIA and organized crime, Nugan

and Hand used their CIA accounts to protect their drug connections under cover of national security. The Australian Federal Bureau of Narcotics was aware of the bank's drug links, but the narcotics bureau's agents were hamstrung by their bosses' seeming indifference. One of the bureau's informants worked for the bank, and he tipped off investigators: "They [Nugan and Hand] are bigger than anything you have ever seen here in the heroin game and are said to be part of an American-security organization. If you caught these blokes, all hell would break loose."

The day after these allegations were made, the informant found the tables reversed. He himself was being tailed, rather than Nugan or Hand.

Within a year it had become apparent to investigators that Frank Nugan had direct access to narcotics-bureau information. He often obtained it within hours of its internal receipt. According to a former bureau officer, "Nugan was getting to hear about our inquiries literally before we could even update . . . them." Then, amazingly, in 1978 the bureau's director placed on file a memo suspending any further investigation into Nugan Hand.

The Australian bureau's course of action, or lack thereof, may have been influenced by the Australian Security Intelligence Organization (ASIO). This security group worked closely with the CIA and appears to have been involved in the destabilization campaign against the country's Labor government. When the Labor party was voted into power in 1972, Australian Prime Minister Gough Whitlam quickly an-

tagonized Washington by pulling Australian troops out of Vietnam and condemning President Nixon for the bombing of Hanoi. But nothing so enraged the two agencies as Whitlam's repeated criticism of an important CIA base at Pine Gap, in central Australia, which directs U.S. nuclear submarines and monitors U.S. satellites watching the Soviet Union and China. Although Whitlam had privately assured the CIA that his government would renew the Pine Gap lease, publicly he threatened to scuttle the agreement unless certain terms were changed.

The threat to Pine Gap convinced Colby and others that Whitlam's government was at least as dangerous as Chile's Socialist president Salvador Allende, who was overthrown in 1973 in a CIA-supported military coup. Though such comparison was obviously exaggerated, the CIA didn't think so. As a former Australian Labor-party leader pointed out, "When the chief of the CIA lists . . . a Labor government as a crisis of comparable priority to [Chile], the Yom Kippur War, coups in Cyprus and Portugal, and the unexpected entrance of India into the nuclear club, [our] concern [about CIA destabilization] looks less like paranoia."

Events were to prove him right. As a former CIA deputy director of intelligence later confirmed: a joint CIA-ASIO plan had indeed existed to destabilize the Whitlam government through misinformation and contributions to opposition politicians.

CONFIRMED

A NUGAN HAND WHO'S WHO

FRANK NUGAN, co-owner of the Nugan Hand Bank in Australia, died in 1980—an apparent suicide.

MICHAEL HAND, ex-Green Beret, CIA contract agent, and Nugan's business partner, fled Australia after Nugan's death; his whereabouts are unknown.

GENERAL EDWIN F. BLACK, commander of U.S. troops in Thailand during the Vietnam War and later assistant army chief of staff for the Pacific, was president of Nugan Hand's Hawaiian operations.

EARL P. "BUDDY" YATES, retired rear admiral and former chief of staff for strategic planning with U.S. forces in Asia and the Pacific, was Nugan Hand's president.

WILLIAM COLBY, CIA director from 1973 to 1976, was a Nugan Hand lawyer.

THEODORE S. SHACKLEY, former No. 2 in charge of CIA clandestine services, former head of CIA covert operations in the Far East, and an Edwin P. Wilson

associate.

EDWIN P. WILSON, former CIA agent and arms trader who used the Nugan Hand Bank for undercover operations. Convicted of smuggling arms to Libya.

BERNIE HOUGHTON, former undercover agent with U.S. Naval Intelligence, was Nugan Hand's representative in Saudi Arabia; in hiding.

TOM CLINES, director of training in the CIA's clandestine services and later with the Wilson-trained international-trading firm A.P.I. Distributors, was involved in the Nugan Hand takeover of a London bank.

RICARDO CHAVEZ, Cuban exile and former CIA agent and also on A.P.I.'s payroll, was involved in a London bank takeover by Nugan Hand.

GENERAL RICHARD C. SECORD, former Middle East adviser to Secretary of Defense Caspar Weinberger, introduced Clines and Shackley to Houghton.

DONALD BEAZLEY, head of Nugan Hand operations and later president of a Miami bank owned by a Colombian wheeler-dealer.

MICHAEL VERBELL III, CIA mercenary recruited for Caribbean resettlement of Meo refugees and paid by Nugan Hand Bank.

TIRATH KHEMLANI, Pakistani trader who worked with the CIA on the Whitlam "coup," was convicted in the U.S. of an organized-crime swindle.

GOUGH WHITLAM, Australia's prime minister until 1975, when a CIA disinformation campaign financed by Nugan Hand contributed to his government's fall.

JAMES CAIRNS, Whitlam's deputy prime minister, was politically ruined by a CIA disinformation campaign.

JOHN HERR, the British Crown's CIA-linked representative in Australia, sacked Whitlam.

The Nugan Hand Bank played an important role in these operations. It financed CIA bugging-and-forgery operations that triggered a financial scandal, leading, in November 1975, to the fall of Whitlam's government. Frank Nugan served as the go-between for a \$2.4-million CIA contribution to a Liberal-party slush fund to bring down Whitlam. The money was laundered through one of Nugan's mining companies and passed on to a Liberal-party figure with documented links to Australian mobsters.

A CIA-related firm, Commerce International, which did business with Air America veterans and self-described intelligence agents from the Middle East, was involved in the plotting. One of these was Tirath Khemlani, a Pakistani commodities trader who worked on the Whitlam "coup" for Commerce International. Khemlani had attached himself to Whitlam's minister for minerals and energy, Rex Connor, who was trying to obtain a \$2-billion loan from the Arab nations to shore up Australia's sagging economy. Although Khemlani had few credentials to recommend him—his biggest commodity deal amounted to no more than \$16 million—he was embarrassingly intimate with the loan negotiations, which were detailed in a pile of suspect secret cables he released to the press in the fall of 1975.

The documents implied that the energy minister and Whitlam's heir apparent and deputy prime minister, James Cairns—another party to the loan negotiations—may have lied to the Australian Parliament. When Cairns denied he had offered a brokerage fee to secure the money, a blizzard of telexes and letters surfaced to prove the contrary. Some of the most incriminating evidence "may have been fabricated," as the CIA itself admitted. Later, statements by CIA contract employee Joseph Flynn confirmed that cables about the loan negotiations had actually been manufactured by him and leaked to the press. Flynn said he was paid for his services by Michael Hand. Testimony by a cipher clerk indicated that much of the misinformation used against Whitlam's government came from traffic picked up by Pine Gap, which has the ability to monitor voice, cable, and telex communications over most of the Pacific. When it finally dawned on Australian officials that the CIA was using a military installation in Australia's own backyard to spy on them, there was a tremendous to-do. But it came too late to save Cairns, the most charismatic figure on the Australian Left, who was politically ruined.

Though beset by scandal, Whitlam's government might have weathered the crisis had it not been for Governor-General John Kerr. The British government has an ambassador to Australia, and Kerr's responsibilities were largely ceremonial. Nevertheless, Kerr resorted to a legally questionable device—he called Whitlam to his official residence and dismissed the astonished prime minister. This was in November 1975, a month before the Pine Gap lease expired. Over the Australian Parliament's protests, Kerr named the Liberal party's pro-American leader, Malcolm Fraser, as caretaker of a new government.

What was Kerr's background?

He founded an Asian law association with CIA funds, and he was active in the Congress for Cultural Freedom, another CIA-funded enterprise. The day before he sacked Whitlam, Kerr held discussions with the permanent secretary of the Australian department of defense about American discontent with Whitlam and about CIA threats to break off relations with ASIO if it did not bring Whitlam to heel.

Having served its purpose in the Whitlam affair, the Nugan Hand Bank was appointed the CIA's worldwide paymaster. A former Nugan Hand executive has alleged that Hand told him he had arranged for the bank to take care of "disbursement of funds anywhere in the world on behalf of the CIA and also for the taking of money on behalf of the CIA."

Hand apparently was able to make such claims because of his relationship with Edwin Wilson and Bernie Houghton, two key American-intelligence operatives who enjoyed the confidence of Ted Shackley, head of the CIA's Far Eastern covert operations, and one-time second in command of CIA clandestine services. Houghton was a Texan in his sixties who had spent the Vietnam War years as a businessman trading goods in the Southeast Asian war zones. A friend of Hand's, he later opened a chain of honky-tonk bars and a gambling parlor in Sydney, which were frequented by CIA officers and American military brass. A few weeks before Nugan's mysterious death, Houghton played dinner host to Representative Bob Wilson and his Armed Services Committee.

Houghton had earlier served as an undercover agent for naval intelligence, and apparently he continued the relationship in the early 1970s when the navy created a deep-cover intelligence operation. This was called Task Force 157 and it used CIA operatives—among them Edwin Wilson,

the notorious arms smuggler who was Hand's second important contact.

Task Force 157 employed 50 to 75 agents whose main function was to monitor and collect information on Soviet shipping. Wilson had his own staff at the Task Force's Washington headquarters, and among his cover contacts was the Nugan Hand Bank, through which TF 157 and the CIA laundered money. In 1977, Task Force 157 was abruptly disbanded, apparently because Wilson's boss, Admiral Bobby Ray Inman, feared that one or more of Wilson's undercover operations might end in an embarrassing scandal.

When Wilson was fired by Inman, Wilson turned his agency contacts to his own profit. These contacts included Ted Shackley and Tom Clines, director of training in CIA clandestine services until 1978. After Admiral Stansfield Turner was appointed by President Carter to get rid of the smell in the CIA that was left over from the Colby period, Shackley and Clines left the agency to join an international-trading firm called A.P.I. Distributors. According to the same Australian government report, A.P.I. was set up with \$500,000 lent by none other than Ed Wilson. Also on the A.P.I. payroll was Cuban exile Chavez, who had worked for Shackley when Shackley ran the CIA's secret war against Cuba in the 1960s. A.P.I. would later be involved in a Nugan Hand Bank deal in London.

Shackley and Clines first met Bernie Houghton through Air Force Major General Richard C. Secord, a member of the military's old-boy network who had known Houghton since 1972. Secord, who recently retired as Middle East adviser to Secretary of Defense Caspar Weinberger, was suspended for three months in 1982 after the Pentagon learned of his links to Wilson. Houghton successfully dealt with Wilson and his naval task force. According to the Australian-government report, after "a number of meetings between Wilson, Houghton, and others," Wilson placed an order for some 10 million rounds of ammunition and 3,000 weapons, reportedly shipped from Boston to CIA-supported guerrillas in Angola in late 1975 or early 1976. Australian investigators discovered that the weapons were delivered to someone in Africa, reportedly Michael Hand, who then delivered them to the guerrillas.

Around the same time, according to the Australian-government report, the U.S. Navy instructed Wilson to sell an electronic spy ship, disguised as a fishing trawler, to the shah of Iran. The report suggests

CONTINUED

that Houghton used the Nugan Hand Bank for the deal.

The shah was so pleased with the deal that he later used Nugan Hand to place several billion dollars on the world financial markets through the bank's Swiss branch. The bank also hauled in upwards of \$10 million from unsuspecting Americans working in Saudi Arabia. Employees of Aramco, Bechtel, and other large U.S. concerns in Saudi Arabia were solicited by Nugan Hand for savings and investments. According to investors, bank salesmen were permitted to hold meetings on company property and used company bulletin boards. According to Houghton's testimony, the Henry C. Beck Company of Dallas, even went so far as to sponsor his entry into Saudi Arabia. Houghton carried off "bags of cash" from U.S. Air Force personnel in Saudi Arabia, all of which was lost after the bank collapsed, leaving a shortfall of more than \$50 million.

Wilson, Shackley, Houghton, and Colby were not the only intelligence officers whose names were mentioned in connection with the Nugan Hand Bank. The bank employed: Guy Pauker, a CIA consultant; Dale Holmgren, flight-service manager for another CIA-run airline in the Far East, who opened Nugan Hand's Taipei branch; and Robert Jansen, former CIA station chief in Bangkok, who represented Nugan Hand in Thailand. Also linked to the bank were the CIA station chief of Australia and two CIA case officers.

From the military there were General Black, Admiral Yates, and three-star General LeRoy J. Manor, previously chief of staff for U.S. forces in the Pacific, who allegedly ran Nugan Hand's Manila office. The consulting offices of General Erie Cocke, Jr., a retired general with the U.S. National Guard, served as Nugan Hand's Washington headquarters.

In putting together the Nugan Hand puzzle, Australian investigators were confronted with a maze of leads to the U.S. intelligence and military community. Naturally they concluded they were looking at a CIA bank. The bank appeared to be an instrument of the intelligence community, but a lot of free-lance work was going on on the side. In fact, the bank was part of a large group of interests that used government connections for personal gain.

As investigators probed into Nugan Hand, it became evident that they were dealing with an old-boy network of spooks and military men. Many of its members were schooled in immorality, to paraphrase a former CIA agent, through the use of illegal methods to achieve govern-

ment objectives. They used their influence in official circles to promote the myth that it didn't matter whether they were retired or active, since all were in the same game, with the same absence of rules, in the fight against communism. Only some of the "old boys" were now making a buck, too. And nobody dared blow the whistle on a former colleague; if he did, the colleague might drag out the dirty linen of the navy, army, air force, or CIA. Nugan Hand was a good example of such back scratching.

Although thousands of small investors in the United States and Australia clamored for the return of their life savings in the wake of the bank's collapse, the bank's directors appeared unconcerned. "I don't feel guilty because some guy got swindled," General Black, the bank's Hawaii representative, told the *Wall Street Journal*. Nevertheless, the appearance of the names of Black and Yates on Nugan Hand brochures was an important factor in the decision to invest, according to at least one victim.

Yates, in an interview with *Penthouse*, agreed with this assessment. Admitting that he had no background in banking, he said, "Their reason for employing us (he and General Black) was to improve the credibility of the organization. "Of course I feel like a victim," he maintained.

Other American victims said they gave Houghton their money because companies like Beck and Aramco seemed to sponsor him. "Everybody said, 'Well, Beck, they're not going in with just any old guy,'" explained one investor, whose family lost nearly \$74,000. But while the companies' U.S. spokesmen disclaimed any knowledge of Houghton, and the State Department insisted there had been no official U.S. involvement in Nugan Hand, Australian investigators have unearthed enough evidence of U.S. connivance—through Wilson's task force in naval intelligence—to suggest a strong case for a class-action suit against the U.S. government. Further revelations from Australia, where the Nugan Hand investigation continues, may provide additional evidence.

Nugan Hand was also a partner in the takeover of a British bank, London Capital Securities, by Thomas Cline, Cuban exile Chavez, and Donald Beazley. Beazley was a former Federal Reserve bank examiner who in 1979 was brought in as president of Nugan Hand's worldwide operations. (Beazley subsequently became president of a Miami bank, City National, a majority interest of which is owned by Colombian wheeler-dealer Alberto Huique, charged in 1983 with defrauding U.S.

banks of more than \$120 million through fake coffee exports.) Beazley was the nominee for Chavez in the London bank purchase, and Chavez, according to the Australian-government report, was "quite likely" little more than a nominee for Cline. Australian-government investigators stated that Beazley helped finance the bank purchase with \$300,000 in cash and travelers' checks sent by Houghton, some of which came from hapless clients in Saudi Arabia. Beazley later also approved Houghton's cashing of at least \$52,000 in travelers' checks at the London bank to credit his personal account. Although Beazley claimed he had been taken in by Houghton and Chavez, Australian investigators who interviewed him found Beazley "vague and distant" about bank matters. "There appears to have been a distinct lack of formality and background knowledge, which one tends not to expect from conservative bank administrators."

One might say the same of Admiral Yates and General Black, who figured prominently in Nugan Hand's operations. Australia's prestigious *National Times* described Black as a top Pentagon official who had been "in charge of various paramilitary operations in Asia involving a number of unorthodox financing arrangements." (Black began his career with the CIA's forerunner, the OSS, and maintained close contacts with the agency throughout his military service.) But Yates was the more important of the two. Recruited to work for Nugan Hand by Bernie Houghton, Yates in turn put Frank Nugan together with General Black. Yates even arranged for Nugan to attend a \$1,000-a-plate fund-raising dinner with President Carter, who supposedly had given orders to rid the CIA of such rogue agents as Edwin Wilson. Yates was also reported to have met with both Wilson and his missing partner, Frank Terpil, in Washington and London (which Yates has denied) to discuss several major Libyan construction projects, including Nugan Hand's financing of an airport.

Nothing better symbolized the old-boy network of interests than the recruitment of Mitch Werbell III, a Russian mercenary who has often worked with the CIA, and who was indicted for gunrunning and marijuana smuggling. Werbell had an impressive record of attempted coups in the Caribbean. He apparently was paid by Nugan Hand to get approval from "Baby Doc" Duvalier for the resettlement in Haiti of some 3,000 Meo tribesmen who had fought as CIA mercenaries in Laos and were forced to flee when the pro-Communist Pathet Lao seized power. Werbell re-

5
CONTINUED

portedly threatened Baby Doc with a coup if he did not cooperate—but if he did, Baby wasn't impressed.

Nugan Hand then turned its attention to some small, arid islands in the Turks and Caicos groups, which are southeast of Miami, as a refuge for the tribesmen. The plan was to use the Nugan Hand offices in the Cayman Islands as a funnel for U.S. government funds to finance the Meo resettlement. It is unlikely that the islands could have supported the refugees, but, as noted by Australian-government investigators, the islands are "a significant transshipment point along lines of illicit drug traffic to the American market from the Caribbean and Central America."

It is a matter of record that the tribesmen were expert dealers in the drug trade. They were the biggest poppy growers in Asia's Golden Triangle, as well as the biggest clients of the Nugan Hand branch in Chiang Mai, located in the heart of the triangle. A former Nugan Hand executive has alleged that during six months with Nugan Hand he saw millions of drug dollars pass through the bank.

Though the resettlement scheme collapsed, it bore similarities to other shady projects proposed to Yates, such as the establishment of a \$1.4-million bail fund through Nugan Hand for international dope couriers caught in the United States. The money was to have been deposited in foreign accounts for use in the United States, but Australian investigators reported that Yates rejected the idea as harmful to the bank's reputation.

As documented by the Australian police, the country's biggest drug pushers banked with Nugan Hand, including the \$100 million "Mr. Asia" heroin syndicate, which arranged for the contract murders of at least three persons in Australia. Nugan Hand had equally sinister links with the U.S. underworld. Australian-government sources reported that among the bank's clients was Jimmy Chagra, one of the United States' biggest drug smugglers, now serving a 60-year sentence for his part in an international dope ring. A highly sophisticated interstate operation, the ring was exposed following a major Justice Department probe into the drugs-for-guns traffic between the United States and South America.

All money-go-rounds eventually spin out of control, but Nugan Hand's directors seemed unaware of the pending danger in late 1979, only weeks before Frank Nugan's body was found. When Michael Hand learned of Nugan's death, he rushed back to Sydney from London. He was joined by Admiral Yates, and they called the other directors to an emergency meeting at the bank. According to Stephen Hill, one of those present, the group shredded enough records to fill a small room. What they could not destroy they packed in cartons and carried that night to the back room of a butcher shop owned by a former army sergeant in Vietnam who was an associate of Houghton's. Hill said that Houghton brought along his lawyer to oversee the ransacking, and that the lawyer warned them, "I am fully aware of what has been going on. You all face jail terms of up to 16 years." Hand then broke in to say that if orders were not obeyed "terrible things" would happen: "Your wives will be cut up and returned to you in bits and pieces."

Meanwhile, in Manila, General Manor, who was helping run the bank's branch there, was trying to persuade Nugan Hand's public-relations officer to stop the wire services from reporting Nugan's death. On a secret assignment for the air force in the Philippines, Manor left in a hurry after speaking to his lawyer.

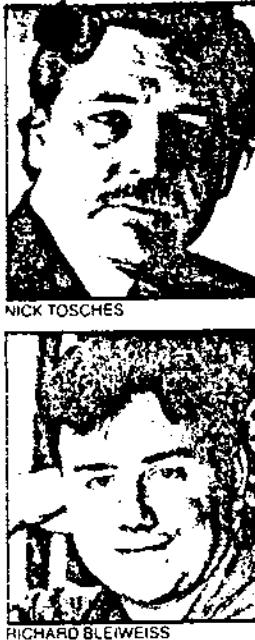
Houghton told the bank's agents in Saudi Arabia much the same; they barely escaped before angry depositors stormed the local branch. Houghton fled Australia. Hand went into hiding in the butcher shop used to store the bank's files and was smuggled out of the country with a disguise and a fake passport, aided by a former CIA operative. Hand apparently traveled to the United States, and the butcher-shop owner said that when he was visiting his brother in San Francisco in 1981 he got a call from Hand, who asked about the wife and friends he had left behind. That was the last time anyone has reported talking to Hand and probably the last time anyone will. Said one of Hand's close colleagues: "He's either dead or has gone into hiding abroad, never to return."

Those who were still around to comment claimed either to have known nothing or to have been duped by Nugan and Hand—claims that couldn't be chal-

lenged. Yet the scandal would not die. It ballooned to larger proportions in Australia, where the Labor party was returned to power in the 1983 elections. The defeated pro-U.S. government of Malcolm Fraser had managed to keep the story under wraps, but the new Labor government, itching for revenge, appointed a task force with broad powers to delve into the Nugan Hand mystery. Some prosecutions are probable on the Australian end. In the United States it's been hush-hush as usual. The U.S. intelligence community refuses to give any information to the Australians. Why should they? No crime was committed in the United States. O



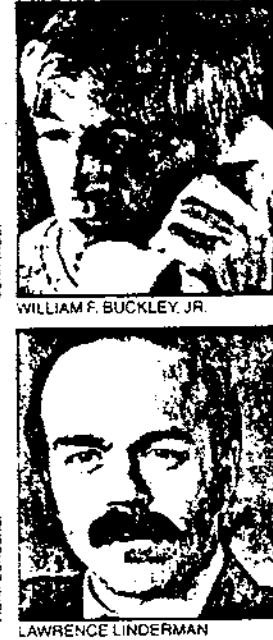
WILLIAM TUCKER



NICK TOSCHES



RICHARD BLEIWEISS



WILLIAM F. BUCKLEY, JR.



JIM HOUGAN

HOUSECALL

The warning is blunt and horrific, and it comes from one of the very few Americans who can speak with personal authority on the subject: "The United States is not immune from Palestinian terrorism. There are a great many Palestinians in New York, Miami, California—Palestinian students who consider themselves warriors at this point. And there could be occurrences... such as at the Olympics next year," in Los Angeles. This terrifying scenario is not the creation of Robert Ludlum or John le Carré. It is part of an extraordinary *Penthouse* interview with one of the most dangerous and wanted men in the world—Frank Terpil, a fugitive from U.S. justice who in the course of an extremely checkered career has worked for—among others—Ugandan dictator Idi Amin, Libyan strongman Muammar el-Qaddafi, the Palestine Liberation Organization, and the CIA. In 1980, Terpil fled to Syria to avoid trial for gunrunning. Other charges still outstanding against him include training terrorists in Libya, the illicit transfer of explosives aboard a commercial airliner, and solicitation to murder. *Penthouse* reporter Jim Hougan, one of America's leading authorities on the mysterious underworld of the "intelligence community" (his book *Spooks* is a definitive text on the subject), interviewed Terpil in secret sessions behind the iron curtain and later at a luxurious resort hotel in the Caribbean (page 130). Despite being the moving target of Interpol, the Mossad, and the CIA, to say nothing of figuring prominently on the hit lists of former "business" associates, "Terpil seems to have come to terms, indeed to be at ease," Hougan told us, "with the dangers and uncertainties that define his existence."

Moving from the real-life world of international espionage to the fictional, we are particularly proud this month to present a preview of the newest thriller by William F. Buckley, Jr., one of our leading conservative thinkers and—more recently—a master of the best-selling spy novel, "Operation Rheingold" (page 88), which is excerpted from *The Story of Henry Tod*, to be published by Doubleday, is set in East Berlin during those tense months in 1961 when the Communists increasingly tightened the grip on their hapless civilian victims. Buckley's skillful blending of fact and fiction makes for unusually compelling reading.

The legend of Karen Silkwood, who died nine years ago on a dark Oklahoma road, is also a tale that reads like a compelling novel: a young girl murdered by shadowy and powerful men after she discovered and threatened to expose shocking safety violations involving plutonium, one of the most dangerous substances on earth. The problem—according to reporter William

Tucker—is what people have actually come to believe about Karen Silkwood. Her story is a mixture of fact and fiction, and it's mainly the fiction that "squadrons of anti-nuclear activists, the women's movement, and labor-student coalitions have adopted." This month, in fact, a blockbuster Hollywood movie, starring Meryl Streep as Karen, is opening around the country and promises to add to the controversy. Tucker's reconstruction of the life and death of this media saint, "No One Killed Karen Silkwood" (page 68), is a model of investigative journalism that should convince all but the most dedicated zealots that "the real Karen Silkwood was flesh and blood, somewhat less saintly than her image...but, when the facts are disentangled from the myths, will perhaps prove a heroine of sorts nonetheless."

Other special features in this very special Christmas issue include "An Executive Christmas Carol," scintillatingly satirical holiday cheer by artist Mischa Richter (page 179); a little "spiritual" advice by Lawrence Eisenberg, whose article on "Champagne" (page 144) tells you how "the king of wines" can add sparkle to your winter party giving; contributing editor Emily Prager's offbeat suggestions on where to spend your Christmas Eve (page 57); and Nick Tosches's survey, with pictures, of the newest and hottest queens of rock 'n' roll's new-wave revolution (page 138).

Special Christmas kudos are due to our equally hot (but not so new-wave) Art Department, which, under Art Director Richard Bleiweiss, has just won a Silver Medal from the Art Directors Club—the latest in a long line of graphics awards bestowed on *Penthouse*.

Since holiday cheer and gift giving are what Christmas is all about, what better month than December to crown our brand-new Pet of the Year (page 115)? Her selection by the votes of thousands of fans not only guarantees the bountiful homage and treasure worthy of such loveliness (page 184) but this year—for the first time—also gains our American Pet of the Year admission to the greatest and most lavish beauty contest of all time: the *Penthouse International Pet of the Year Pageant*, featuring more than forty of the world's most elegant and sexy women, all competing for an unprecedented prize of \$1 million in cash and gifts. The winner will be chosen by a distinguished panel of judges, including Marc A. Richardson, of Los Angeles, whose wickedly witty entry in our "Here Comes the Judge" contest won him a seat on this highest court of sex appeals. Lawrence Linderman's behind-the-scenes report on how *Penthouse*'s revolutionary concept for an internationally televised extravaganza became reality begins on page 84...and, finally, our own extravaganza of holiday beauty, starring the best and the brightest of *Penthouse* Pets, will guarantee that the pleasures of the season will last way after Christmas. O+



PENTHOUSE INTERVIEW

ALL INFORMATION CONTAINED

HEREIN IS UNCLASSIFIED

DATE 6/24/88 BY SP SGT

• The United States is not immune from Palestinian terrorism. There are a great many Palestinians in New York, Miami, and California who consider themselves warriors. And there could be occurrences . . . such as at the Olympics next year. •

FRANK TERPIL

Trank Terpil, a fugitive ex-CIA operative and one of the world's most dangerous and wanted men, is alive and well and living . . . from day to day . . . in luxurious hiding. A former intelligence adviser to deposed Ugandan dictator Idi Amin and to Libyan strongman Muammar el-Qaddafi, Terpil moves incognito through a world that can only be compared to Robert Ludlum's fiction. He has played host to Carlos ("The Jackal") Ramires, he is a consultant to the PLO, he has contacts in more than a dozen foreign intelligence services on both sides of the ideological curtain, and he was the onetime business partner of renegade CIA agent Edwin P. Wilson.

Terpil became a fugitive in September 1980. He fled to Syria to avoid trial on charges stemming from a scheme to sell 10,000 British Sten guns to undercover detectives posing as revolutionaries. Terpil and an associate, Gary Korkala, were both tried in absentia, in New York, and sentenced to fifty-three years in prison with the recommendation that neither man receive parole. That, however, was only one of the charges against Terpil. Other counts against him still outstanding involve the alleged training of terrorists in Libya, the illicit transfer of explosives aboard a commercial airliner, violations of passport laws and the Foreign Agents Registration Act, and solicitation to murder.

Before the indictments came raining down upon him, Terpil was a respected, if somewhat mysterious, man of affairs. Brooklyn-born and -bred, he retired from the CIA in 1971, having spent seven years as a communications technician in the inner sanctum of the U.S. intelligence community. Streetwise and ambitious, he was a natural entrepreneur, with a penchant for big houses, big cars, petite mistresses, and enough servants to keep it all running smoothly. Well-liked, amoral, and superbly well connected, he became a middleman in the international arms bazaar, supplying weapons with silencing devices, binary explosives, poison kits, helicopters, electronic eavesdropping equipment, mili-

tary uniforms, mercenaries, and coups d'état to the highest bidders. It was literally a cutthroat business, and it proved to be a profitable one as well. Within a few years of leaving the CIA, Terpil was a multimillionaire, concealing his wealth through the anonymity of Swiss bank accounts and Liberian fronts while acquiring a Rolls-Royce, a small British hotel, objets d'art, and town houses in Washington, London, and Paris.

In the constellation of conspiracies known collectively as "the Wilson-Terpil case," Terpil remains the only indicted conspirator still at large. Edwin Wilson, lured back to the United States in 1982 by a canny federal prosecutor, proceeds from trial to trial, keeping his mouth shut while accumulating sentences of millenarian proportions. Gary Korkala, arrested in Spain earlier this year, was returned to the United States with the proviso that he would receive a new trial. Others implicated in the case have pleaded guilty to a variety of charges, and some have entered the government's Federal Witness Protection Program, and not a few have died—violently or unexpectedly. Among the last-named: Kevin Mulcahy, the ex-CIA officer whose ad hoc investigation of the case led to Wilson's exposure, was found dead at a motel in West Virginia; Waldo Dubberstein, a top analyst with the Defense Intelligence Agency from whom Wilson allegedly purchased classified information for transmission to Libya, was found dead of a shotgun wound, apparently self-inflicted; and Rafael Villaverde, an anti-Castro Cuban hit man, is presumed dead after an explosion at sea, off the coast of Bermuda.

The importance of the Wilson-Terpil case goes far beyond the particular indictments brought to date. What is at issue is not only the question of who shot whom, and why, but also the pattern of violent criminal activity involving the corruption of public officials in Congress, the military, and the CIA; the sale of secrets and high-technology hardware to avowed enemies of the United States; and the extent to

which these commercial intelligence operations have compromised national security and the workings of the U.S. government. As our interview with Frank Terpil makes clear, there is a panoply of questions that remain to be answered. These questions concern the CIA's alleged involvement in opium trade; the relationship between the CIA and the mysterious Nugan Hand Bank; the use of CIA personnel to train Mehmet Ali Agca, the would-be assassin of the pope; Ed Wilson's relationship to South Korean intelligence agent Tong Sun Park; the CIA's apparent access to a stable of hired assassins; and the acquisition of assassination weapons by an elite American military unit stationed at Fort Bragg, N.C.

Because, of course, Frank Terpil did not sell his wares to terrorists alone: U.S. government agencies were also among his customers. Which raises the question: are the CIA and the American military still in the assassination business? If not, then why would the latter commission Terpil to acquire handguns that were not merely silent but "sterile"—i.e., manufactured in Switzerland and impossible to trace? So, too, when it came time for Terpil to hire a team of assassins to hit Libyan dissident Umar Abdullah Muhayshi, it was from a pool of CIA contract agents that the intended hit men were selected. If the CIA is not in the assassination business, then why does it employ agents known precisely for that expertise?

Penthouse: What was your life like before you fled the States?

Terpil: I was an up-and-coming Washington millionaire, with all the assets: big house, the right cars, the right address, office building, all the respectable amenities that go with success in Washington.

Penthouse: And your business?

Terpil: Import-export. I also owned a manufacturing business which aided law-enforcement agencies. I manufactured the Denver boot [a tire-locking device], for scofflaw parking violators.

Penthouse: Do you feel strongly about scofflaws?

Terpil: I probably . . . (Laughs) Do I feel strongly about scofflaws?

Penthouse: Should someone who gets a ticket pay his debt to society?

Terpil: Well, short of capital punishment.

Penthouse: And yet, you're avoiding a sentence of fifty-three years.

Terpil: I wasn't there to receive it, unfortunately. I was planning to submit a blow-up doll with a little mustache on it; they could put the doll in for fifty-three years, but I don't know who would keep it inflated.

Penthouse: Well, in prison you never know. Was this your first offense?

Terpil: Yes. With the exception of normal juvenile delinquency.

Penthouse: What did you do as a juvenile?

Terpil: I sold a machine gun to an undercover policeman in New York.

Penthouse: And twenty-five years later?

Reporter Jim Hougan's interview with Terpil took place in two stages, and on two continents. The first meeting occurred in the old-world atmosphere of a central-European country on the wrong side of the iron curtain. The second meeting took place on a small Caribbean island, at a lavish resort hotel frequented by rock stars and the very rich—including at least one other fugitive sought by Interpol.

Hougan reports: "In many ways Terpil remains the same person that he was before fleeing the United States, in 1980. A gifted raconteur with a million 'war stories,' each darker and funnier than its predecessor, he is also a candid critic of his own character. Unlike so many others who have been implicated in the legion of conspiracies that make up the Wilson-Terpil case, he does not claim to have been duped into criminality, nor does he suggest for a second (as others have) that he was operating secretly on behalf of the CIA. He says he did what he did for the money and for the excitement; which is to say that, however amoral Terpil may be, hypocrisy is not one of his sins.

"Terpil's life, however, has changed. As a fugitive who is never far from a war zone, he is accustomed to traveling light. Accordingly, he has little interest in the bulky status symbols of days gone by; indeed, it is fair to say that Terpil is at this point one of the least materialistic men on the planet. If it will not fit in his suitcase, he doesn't want it, because he knows that at

Terpil: I sold another machine gun to another undercover policeman in New York.

Penthouse: But this time it was 10,000 submachine guns.

Terpil: Yes, but the product was the same.

Penthouse: Why did the authorities come down so hard on you? Why are they trying so hard to get you back?

Terpil: I think I was an enigma in their minds. They really could not place me, because of my CIA background. I was a missing link in a puzzle they couldn't understand. The trial in Washington was rather peculiar in that there were forty-two unindicted co-conspirators.

Penthouse: And you fled?

Terpil: From the New York case, not from the federal case.

Penthouse: What was different about it?

Terpil: First, I tried to hire the best attorney available who had connections in City Hall. I understood that there would never be a trial, that the fix was already in. That I would be required to pay \$50,000 up front, presumably to take care of Morgenthau [Manhattan district attorney], City Hall, and the underlings within the assistant prosecutor's office. And it was openly stated there would never be a trial. It would just go away, it would die.

Penthouse: You were told that?

Terpil: Yes. The fix was in.

Penthouse: Why, then, did you become a fugitive?

Terpil: Ah, because there was going to be a trial.

moment he might have to leave it behind. A second consequence of his fugitivity has been to make him an inveterate museumgoer and an omnivorous reader. He exhausts the sights wherever he goes—planning 'escape routes' on the way to, say, viewing a cathedral—and he devours a book a day. Terpil seems to have come to terms, indeed to be at ease, with the dangers and uncertainties that define his existence. Sought by Interpol, the Mossad, and the CIA, he has been kidnapped and released by Syrian intelligence agents, shelled by the 'Israelis,' and sniped at by the Christian Phalangists, and he figures prominently on the hit lists of former associates who fear what he knows.

"Sitting in a beach chair with a gin and tonic in one hand and *A Confederacy of Dunces* in his lap, Terpil looked during the interview like any other tourist with money to spend. The Rolex glistening on his wrist suggested a certain solvency. Months in the tropical sun had bleached his hair and tanned his body. The only thing that seemed to bother him was his ever present need of a gun. He carried it at the small of his back, wedged between his blue jeans and his tan, discreetly out of view under the flap of his sportshirt. Shifting his weight in the chair, he dug one of his feet into the white sand, sipped his drink, and nodded toward the yachts bobbing at anchor in the harbor. 'Bread alone,' he said, and grinned."

Penthouse: One of the federal charges against you was conspiring to assassinate Umar Muhayshi, a Libyan dissident.

Terpil: I supposedly utilized three Cubans who work for the agency. Their job was assassination, but on behalf of the United States government.

Penthouse: Are you saying these Cubans performed assassinations for the CIA?

Terpil: Yes. I asked—that's how we got them. They were well known to the agency.

Penthouse: Now, one of these Cubans, Rafael "Chi-Chi" Quintero, claimed he was a party at a meeting in Rosslyn, Virginia, and at that meeting a former CIA agent was present. Who was that CIA agent?

Terpil: Tom Clines. He had been director of training for the CIA's clandestine services.

Penthouse: Did that meeting have anything to do with Muhayshi?

Terpil: Yeah.

Penthouse: Rafael "Chi-Chi" Quintero has since testified that he and one of the other two Cubans, Rafael Villaverde, were led to believe they were to kill Carlos, the terrorist.

Terpil: That's ridiculous. Carlos was never mentioned. The Cubans backed out in Geneva, and the backout was for one reason: they wanted to know if there were Cubans in Libya. At that time Qaddafi did have some Cubans there, who were acting as his bodyguards. Rafael Villaverde jumped

up and said, "I'm not going to work for those guys. Those are fucking Castro agents." And he left. Quintero said, "Don't worry, we'll take care of him, we'll calm him down."

Penthouse: When you fled the States to avoid trial, what was on your mind?

Terpil: I was elated to avoid what I assumed would be a farce.

Penthouse: Why do you say that?

Terpil: The trial's outcome was predetermined. A judge was brought out of retirement, Judge Gallagher, known to be a personal friend of Morgenthau's. Why would they bring a judge out of retirement for one case? My lawyers told me, "Now, we've got a problem. When you show up Monday, you are not going to be released on further bail." So it seemed to me it was a one-act play from that point.

Penthouse: So it was a last-minute decision to flee?

Terpil: Definitely. Because if there were any possibility that I could have received a fair trial, I would have stayed. If I were going to run, I would have run when I knew of the indictment coming down from the federal authorities. Why pay another \$75,000 bail when I could have taken that \$75,000 and used it for my travels?

Penthouse: Having worked for the CIA in the past, were you worried that you'd get knocked off in prison?

Terpil: Not only worried about it. This was told to an attorney. He met with an FBI agent from Jersey City, who told him, "They [Terpil and Korkala] won't last eight months. They'll be dead in eight months."

Penthouse: So you left. Did you leave in disguise?

Terpil: Yeah, I was under surveillance. There was a truck parked in front of my house, a moving van that supposedly had broken down and had been there for four days. I left as if I were going to the store, no baggage, no luggage. I made an alteration to my appearance, which took about twenty minutes.

Penthouse: Can you tell us what kind of alteration?

Terpil: No.

Penthouse: Okay. So where did you go?

Terpil: I left through Washington National, went to Mexico City, then to Houston.

Penthouse: Why?

Terpil: I had some very important business that I had overlooked.

Penthouse: And then where did you go?

Terpil: To Damascus, then to Beirut. Until some Syrian visitors came to my door. I was kidnapped from the restaurant that my partner, Gary Korkala, and I had bought.

Penthouse: You were going to become a restaurateur?

Terpil: Yes. As a matter of fact, it was the restaurant closest to the U.S. Embassy.

Penthouse: And what happened from the moment you were kidnapped?

Terpil: I was blindfolded, handcuffed, stuffed in a Mercedes. A second person was stuffed in the Mercedes with me. It turned out to be Gary. We were driven to

the intelligence prison in Damascus.

Penthouse: What did you think was going to happen to you?

Terpil: I had no idea. The initial accusation was that I was a spy for the CIA. Then they thought I was a spy for the Mossad (Israeli intelligence). Then they went back and questioned me about my travels in the Middle East. What they tried to do was fabricate a case that I was [still] a CIA agent.

Penthouse: Which is not true?

Terpil: Which is not true, but the more I denied it, the more they were convinced that I was

Penthouse: What was prison like?

Terpil: Prison conditions were absolutely horrible. It was similar to the comic strip "The Wizard of Id." The dungeon was exactly two meters long by one meter wide. Nothing in the room. No bed. Nothing. You sleep on the floor. It's underground. No windows. No lights. There's a steel door. You're in solitary.

Penthouse: Were you beaten?

Terpil: Yes, but that's normal. All prisoners are beaten. I didn't know what time it was, what day it was. I attempted to keep track of time by counting the meals.

Penthouse: Gourmet meals?

Terpil: The meals could be termed "early survival." In the morning, you got halvah and a bowl of water. Then lunch, rice with some bugs. At supper . . . well, they claimed it was a soup. There was no exercise at all. You come out of the room for

interrogation, and that's it. And the interrogating cells were approximately fifteen meters away. So you couldn't sleep, because the people would scream all night.

Penthouse: Did you have second thoughts about leaving the States?

Terpil: No. A prison is a prison. I just made up my mind: make the best of it.

Penthouse: Your partner, Gary Korkala, was also imprisoned and interrogated.

Terpil: Yeah, but he was released because he agreed to cooperate.

Penthouse: Did he make statements about you?

Terpil: He made statements that I was a CIA agent.

Penthouse: How were you released?

Terpil: It was Arafat got me out. Arafat said, "We know he's in jail there. I want him out, here in Beirut." No questions. And I was out. No explanation, nothing.

Penthouse: What was your condition?

Terpil: (Laughs) I probably looked like a thinner version of Howard Hughes, but a filthier version at that point. I was released in April '82, after six months, and at that time I had not had a shower since late December. Washing was prohibited. Also, I didn't cut my hair and my beard was down to about chest length. I was down to 135 pounds.

Penthouse: From what?

Terpil: About 270. I went from a size 44 waist to a 32. They came one morning and said, "Get ready, you're leaving." I

HIGH PERFORMANCE

THE PENTHOUSE RACING JACKET MAKES YOU A REAL WINNER.



This handsome metallic gold jacket comes the crest of the Penthouse keys and is emblazoned across the back with the Penthouse name. Crafted from the finest 100% light-weight nylon, this exceptionally well-tailored jacket provides for great freedom of movement. The pockets are comfortably positioned. Double stitched seams to provide year-round rugged wear. Bold black racing stripes, stretch knit cuffs, zippered front and a velcro collar fastener keeps you ready for the main event. Great to wear over your swimsuit or to dress up your favorite jeans. Unconditionally guaranteed. Sizes: S, M, L, XL—Mens and Womens. Allow 4-6 weeks for delivery.

TOLL FREE 800-526-4797

PO Box 4300, Englewood, NJ 07631
Please send _____ Penthouse Racing Jacket(s)
(#PHR) in \$59.95 ea. plus \$2.50 p&h ea. I must be satisfied or I may return my purchase in 15 days for a full refund.
Size: S M L XL
Payment: Cash/Money Order Visa M/C

Interbank No.	Exp. Date
Name	
Street	
City/State/Zip	
Signature	

thought I was getting ready to leave for another prison. They took me blindfolded. When I got outside, they stuffed me inside a Peugeot, took my blindfold off, took my handcuffs off, and drove me on the road to Lebanon. I had my own clothes, which I had to hold up by a string they gave me. And I must have been really reeking. My hair was matted like dreadlocks. And the food was all encrusted in my beard. I felt squeamish about being myself. They took me across the Syrian-Lebanese border and stopped the car in the middle of nowhere. I figured, "This is it. They're going to knock me off right here. This is the traditional dumping ground." But they said, "Get out. That way is Chtaura, this way is Baalbek. Good-bye."

They gave me my watch back and 200 Lebanese pounds. I got into Chtaura with no documentation at all. I asked for a cab to get into Beirut. The taxi driver said, "Let me see the money first." I said, "I can't pass any checkpoints, because I don't have identification," meaning I couldn't pass any Christian checkpoints, because obviously I would have been bagged for sure. And he said, "No, no, we're going around by the airport."

I got into Beirut. I went to Gary's flat and the concierge told me Gary was not there. I said, "Where is he?" He said something about Spain. I thought he said Gary had opened up a Spanish restaurant. So I went over to the girlfriend's house. I said,

"Where is Gary?" and she said, "Gary's in jail." I said, "What? Where?" I thought he'd been put back by the Syrians. She said, "He's in Spain." I said, "In jail? In Spain?" I couldn't even comprehend how the hell he got to Spain.

Penthouse: Then what happened?

Terpil: Then the hell-inspired who sought to destroy world tranquility/Broke my bubble in Beirut with their artillery.

Penthouse: The Israelis invaded. They shot your bubble away.

Terpil: They shot my bubble away.

Penthouse: What was it like being in Beirut, a recently released fugitive who couldn't go back to the States? And with the Israelis moving toward your apartment?

Terpil: The initial reaction, believe it or not, was one of relief, of elation. I had anticipated it would be only a matter of time before the Syrians came with one of their assassination squads and attempted to get me again. Very few people leave Syrian prisons alive. And those who do have a high mortality rate on the street.

I did not anticipate the Israelis would cross the Litani River. I didn't think they'd come as far as the airport. Normally they would come, cause some problems, bomb for one or two days, and then go home again. Then they crossed the Litani River. Now I realized they weren't going to go back home. So we mustered the courageous Palestine Liberation Army.

weapons were freely distributed on the streets to any and all who thought they could use them, and we just settled down for the invasion of West Beirut, anticipating house-to-house fighting.

There were notices on the radio for Americans to evacuate. American ships were being brought in. Naturally, I didn't care what they brought in. I couldn't go to the Americans and say, "Hey, here I am. I'm a citizen. I plan on leaving." And there was a big problem getting over to East Beirut, because the Phalangists weren't stupid. They knew I worked with the PLO.

I was, for all intents and purposes, PLO, not American. I couldn't leave. Ships going to Cyprus were being intercepted by Israeli patrol boats; I had no choice but to stay and fight.

Penthouse: Were you armed?

Terpil: Everybody's armed in Beirut. That's like wearing clothes.

Penthouse: What were you armed with?

Terpil: Grenades, AKs, the standard issue

Penthouse: What happened?

Terpil: I had a very beautiful flat. Unfortunately, it looked into both East and West Beirut—it had huge balconies. So we were caught in a cross fire. If you wanted to get coffee in the kitchen, you had to make sure the kitchen was not under siege. We kept little Coleman stoves in the hallway, in the living room. You actually had to establish a little kitchen in every room, because you didn't know which room might be under fire.

Penthouse: It came time to leave. What happened?

Terpil: The Israelis broke through on Museum Road. And when they broke through, I knew we weren't going to stop them. They were approximately fifty meters down the road. Then, on the other side, they occupied everything to the east. They had us encircled.

Penthouse: How did you leave?

Terpil: PLO. I had the fighter's uniform: kaffiyeh, AK—and sunglasses, of course.

Penthouse: You had your Rolex?

Terpil: I had my uniform buttoned down over the Rolex. Not too many PLOs wearing Rolexes that day. We infiltrated the lines to reach the port area. There must have been 1,000 to 1,200 people in uniform in the port, all trying to get out of the place. I left on a PLO ship.

Penthouse: Where did you go?

Terpil: I went to the camps in Tunis. From Tunis many of the PLO people infiltrated back to Beirut, via Syria and Jordan.

Penthouse: They went right back?

Terpil: When I was at the port, I witnessed these people kissing their wives and children good-bye, and the children and wives returned to Sabra and Shatila. A week later, these same people were dead, massacred. Now you have these men hearing newspaper reports, assuming the worst. In most cases it was a justifiable assumption. So you had these people saying, "I'm not going to stay in Tunis. For what?" They defied Arafat. They went back, as many as two and three hundred

CONTINUED ON PAGE 188

PRESIDENT

"Don't expect much of a Christmas bonus this year."

INTERVIEW

CONTINUED FROM PAGE 134

at a time, back into the Bekaa Valley, and when they were not provided with weapons, they said, "Fine. We'll fight on the Syrian side."

Penthouse: So that's what started the PLO split?

Terpil: That's what started it. These people didn't have families anymore. They demanded retaliation. At the same time, you had Arafat saying, "We're going to try to settle this diplomatically. We scored a victory in Beirut."

"What victory?" these people wanted to know. "We walked out with our tails between our legs. That's a victory? And our families were slaughtered right after that?"

So now you have these people with no families. What have they fought for? They've fought for nothing. They have no house, they have no personal belongings; they have no families, they have nothing. These people are like living shells. They're not going to listen to Arafat. They listened to Arafat once. Why listen to him? Why not listen to George Habash? Why not listen to Abu Nidal? Retaliate. Retaliate. An eye for an eye, a tooth for a tooth. They're death squads. They volunteer, as suicide squads. They have nothing else to live for. So . . . they went down into Bekaa.

The massacre toll was higher than the press said. They bulldozed people under houses. There were mass graves. No one will ever know the death toll. But I would say it probably runs between two and three thousand.

Penthouse: Is it your view, then, that the PLO has only one road to follow: terrorism?

Terpil: Yes. And not only in the Middle East. The United States is not immune. It hasn't happened yet. But there are a great many Palestinians in New York, Miami, California—Palestinian students who consider themselves warriors at this point. And there could be occurrences.

Penthouse: Such as?

Terpil: Such as the Olympics.

Penthouse: Let's talk a bit about your life since then. Do you still carry a weapon?

Terpil: Yes. A Makarov.

Penthouse: Why?

Terpil: I wish it were unnecessary. I'm not a cowboy. But I'm not going back to negotiate a fifty-three-year sentence.

Penthouse: You'd get out at ninety-six.

Terpil: They probably wouldn't have license plates by then.

Penthouse: Before you became an undercover tourist, you were associated with a number of very dictatorial regimes. The one in Uganda, for example. Have your politics changed?

Terpil: Sure.

Penthouse: What's changed you?

Terpil: Being forced to live within the community of these people. Hearing what they feel imperialism is, capitalism is. And, of

course, one of the primary factors was finding an artillery shell in my bedroom that had "California Ordnance Depot" on it. I really felt a little bit miffed about that—my tax dollar was trying to destroy me!

Penthouse: But it's not your tax dollar. You have an outstanding tax bill of about 4 million dollars.

Terpil: Four and a half, or something.

Penthouse: You ought to be booted.

Terpil: Ha, ha, ha, ha.

Penthouse: You've traveled in Central America recently. How do you feel about what's going on there?

Terpil: I never have been against covert action, but in Nicaragua you had Somoza—an absolute dictator. People accuse me of being friendly with Idi Amin, but Somoza was worse than Idi Amin. However, he graduated West Point; he's a friend of the United States. Finally, a radical group said, "Hey, it's about time the people had a cut of the pie." They're not Communists, they're just looking for a

pro-Cuban, as everybody would say. The Russians and Cubans are the people who have offered them aid. What is the United States going to do? It will continue its covert action against them.

Penthouse: You've dealt with, among others, Amin and Qaddafi, neither of whom is or was controllable by the United States. **Terpil:** That's why they're despised.

Penthouse: At the same time, you make the point that Somoza was, in many ways, as bad as or worse than Amin. The same can be said of other dictators the United States supports. If you had dealt only with controllable dictators, would you be in the "public-relations crisis" that you are?

Terpil: I could have sold the identical equipment that I have been alleged to have sold, to General Pinochet of Chile, or to Somoza, and I would not be in any problem whatsoever.

Penthouse: What kind of equipment?

Terpil: We're talking about silent weapons; we're talking specifically about assassinations or covert activities. The weapons that I sold—my sources for them were the exact same sources the CIA uses. Do you see the CIA under indictment? The same laboratory that developed remote-detonation equipment for the CIA, I used. The only difference was I sold mine to Qaddafi. The CIA was giving theirs away to other countries that were, let's say, more friendly. But the use was the same. The use was for remote detonation, for clandestine explosives, for assassinations. Now how do you differentiate which is bad and which is good?

Beirut was a testing ground for live experiments with the latest developments of U.S. weapons. To prove the vacuum bomb was feasible, 283 people were killed.

piece of the action for the people. Ironically, they take over the country through covert action.

So Somoza is gone. He runs off with his millions or billions, and he goes to Miami. Now, suddenly, he becomes an embarrassment to the United States. My God, we can't have Somoza in the country. Everything Carter said about human rights, Somoza did the opposite. So, we've got to get rid of Somoza. Send him to South America someplace, get rid of the guy. Somoza gets killed. Very, very mysterious circumstances—how he was killed. People knew he had an armored car, so they use the appropriate weapon, a 3.5 rocket launcher, which is manufactured only in the United States. The people had American equipment—I'm talking about radio equipment. They were dressed, ironically, in red wigs, similar to Howard Hunt. Maybe they came from the same source. [Howard Hunt wore a CIA-supplied wig for a clandestine interview with Dita Beard, an ITT lobbyist.]

But to get back to what the United States is doing. The Sandinistas have actually made overtures toward the United States. They are not so pro-Soviet, or so

Penthouse: You were charged with having trained people, Libyans and others, in assassination techniques. You've gone to U.S. military personnel or CIA personnel. Why is it they have this kind of expertise?

Terpil: Because they were trained by the U.S. government in this expertise.

Penthouse: Why?

Terpil: It's being used. As a matter of fact, while under indictment in New York I had in my possession two U.S.-government arms licenses. I was picking up from Newark Airport a special pistol made by a Swiss industrial group, an assassination weapon for the U.S. Special Forces. We were asked by the U.S. Special Forces Group, Delta Division, of Fort Bragg, North Carolina, to come up with a suitable foreign-manufactured pistol with silencer and poison bullets. That was a United

States—government project.

Penthouse: For their use?

Terpil: Of course for their use. The toxin was to be from nicotine, an extremely fast-acting poison. Nicotine sulphate. If you just got scratched on the arm or anywhere you'd be dead in a matter of seconds.

Penthouse: What would you have sold that gun for?

Terpil: Roughly \$245. The silencer would have been, possibly, an additional \$110. This was in quantity.

Penthouse: We understand you know something about a number of DEA agents who were sent down to Florida, and then to Central America.

Terpil: They're not DEA agents; they're CIA agents.

Penthouse: Explain.

Terpil: Okay. A number of CIA agents were let go in the early 1970s, in mid-career. They had, possibly, fourteen or fifteen years' service and all of a sudden they find pink slips on their desks. Where do these people go? They show up in DEA. Their operational methods haven't changed, except they now have greater flexibility. They're not encumbered by ridiculous rules and regulations. If they want to blow a guy's head off, that's the fastest way to get rid of him.

Now several hundred people assigned by President Reagan are supposedly assigned to Miami. Where are these people? They went right through Miami into Central America. Central America now had the biggest DEA force in the world. What is the DEA doing? CIA activities. How do you differentiate between CIA and DEA?

Penthouse: Okay, while we're talking about Miami, let's talk a bit about the controversies that have surrounded the Miami CIA station.

Terpil: The significance of Miami is the drug syndicate. Miami's the base. The people that I hired from the agency to terminate other people are there. [Terpil, giving names, then alleged that two former, highly placed CIA officers were responsible for the following scheme.] They got involved in this big drug scandal, which was whitewashed. Where do the drugs come from? Laos. Where did the money come from? Nugan Hand Bank. [Amid allegations of corruption and international drug traffic, the Nugan Hand Bank, a Far East bank with branches worldwide whose officers included many ranking members of the U.S. intelligence establishment, went bankrupt in 1981.] The idea was: in the Golden Triangle [of Laos] you had to buy warlords. How do you do that? You gave them more money [than the going market rate] for their product. Now what do you do? You sell the opium through Singapore, Hong Kong, and Delhi. You reinvest the profits in your own operations. The money is brought to Kabul and deposited in the First National City Bank of Afghanistan. The other bank was Nugan Hand—that's where the transfers went. Now you've got an accelerated fund. Now you've got all this goddamn money, and



If you'd like directions on how to get here, just write us.

JUST ABOUT EVERYONE who tours Jack Daniel's Distillery wants their photo snapped with Mr. Jack.

And our guides are pleased to make these photos. You see, we're proud of Mr. Jack and his whiskey and the medals he won. And prouder still to maintain a tradition 115 years old. That's why we hope you'll pay us a visit sometime soon. We'd be flattered to show you around the distillery. And equally pleased to snap your picture with the man who started it all.



CHARCOAL
MELLOWED
DROP
BY DROP

Tennessee Whiskey • 90 Proof • Distilled and Bottled by Jack Daniel Distillery
Lem Motlow, Prop., Route 1, Lynchburg (Pop. 361), Tennessee 37352
Placed in the National Register of Historic Places by the United States Government.

what do you do with it? You pay it to Alice Springs, Australia, the site of a huge military-intelligence installation. Billions of dollars—not millions—billions of dollars. More money than you knew what the hell to do with.

Penthouse: So you're saying that the agency would provide gold, which would then be flown into the Golden Triangle.

Terpil: To pay for the drugs.

Penthouse: And these would then be sold in any of three cities, and the money put into different banks?

Terpil: Then farmed back into the agency accounts.

Penthouse: Into the operations in Alice Springs?

Terpil: Right. A lot of money.

Penthouse: Okay, let's move on to Libya. You stated at one time that the first Libyan attempt to invade Chad took place on the basis of information that came, indirectly, through the agency. Can you elaborate?

Terpil: Wilson and I were in Libya. No big secret. Qaddafi entertained thoughts about invading Chad. However, Qaddafi had no knowledge of two key factors. One, would France come to the aid of Chad? Two, what were the capabilities of Chad's army and air force?

Wilson was hired to provide what is called an Order of Battle [OB] plan. It's a complete capability [breakdown] of troop strength, morale, physical capabilities—weak spots and strong spots. Wilson knew, and I knew, that it was impossible to obtain this except through the Defense Intelligence Agency or the CIA. Wilson went to a high-level CIA officer to see if he could assemble an OB, knowing full well where the CIA officer would go to obtain the information. The officer was paid \$50,000 for the OB. Now, this man, who is not an expert in these affairs at all, had to rely on the help of people who work with this on a daily basis, one of whom was Waldo Dubberstein. Dubberstein, unfortunately, had a hunting accident in the laundry room of his girlfriend's apartment.

[In April 1983, Waldo Dubberstein was found dead in the basement area of an Arlington apartment he shared with his girlfriend. Police said he had been shot once in the head with a 12-gauge shotgun, which was found near his body. Dubberstein, a former CIA officer and analyst for the Defense Intelligence Agency from 1975 to 1982, had been indicted two days earlier by a federal grand jury. He was charged with seven counts of conspiracy, unauthorized disclosure of classified information, and bribery. The grand jury alleged that Dubberstein turned over—both to Ed Wilson and directly to Libyan intelligence—sensitive summaries and analyses of Middle East affairs beneficial to Libya. The indictment alleged that he received more than \$32,000 from Wilson in return.]

Penthouse: So Wilson went to this high-level CIA officer, and he went to Dubberstein?

Terpil: Yes.

Penthouse: Did Dubberstein get it?

Terpil: Yes. Dubberstein actually made a trip into Libya with this information.

Penthouse: And for this the high-level CIA officer was paid \$50,000?

Terpil: Yes.

Penthouse: What would Wilson have charged for such services?

Terpil: Three hundred thousand to \$400,000.

Penthouse: Let's talk a bit about Ed Wilson. Did he know the Korean Tong Sun Park?

Terpil: Yes. When Park disappeared into London, Wilson had all the unlisted phone numbers and was in direct communication with him on many, many occasions.

Penthouse: Park, of course, was a KCIA agent?

Terpil: Of course.

Penthouse: And Wilson was a CIA agent.

Terpil: Yes.

Penthouse: It was alleged, among other things, that Park was involved in possible

corrupt it's unbelievable. When they take their finger at somebody else, they really should look in their own backyard.

Penthouse: You said you wanted to talk about a Turkish organization known as the Gray Wolves. Let's talk about it.

Terpil: The Gray Wolves are an ultra-right Turkish political group that felt Turkey might go to the left. They took it upon themselves to make sure Turkey stayed to the right—by means of extreme measures. It's a paramilitary group.

Penthouse: Who financed it?

Terpil: The chief financier was a Muslim who held Nazi political ideas. He married an extremely wealthy woman in Turkey. He is today probably one of Turkey's wealthiest people. He was elected to the Turkish parliament and became a deputy of the Turkish Justice party. Then he took it upon himself to become the protector of the Right in Turkey. He came to the United States on several occasions. He went to the CIA for funding. He went to the shah of Iran, too. Apparently he met with limited success, and he basically financed his own operation.

Penthouse: Who trained his private group?

Terpil: He got what he felt was the best. He had North Koreans training the group in karate. For clandestine eavesdropping, he had some West Germans. For possible assassinations, and in what we call "bang and boom," an active-duty CIA officer was hired on a personal basis, while on his annual leave, to train the Gray Wolves. He was a contact of Ed Wilson's. And he actually spent two weeks in Istanbul.

Penthouse: Is it true that one of the people who underwent training with the Gray Wolves was Mehmet Ali Agca, who is accused of attempting to assassinate the pope?

Terpil: Yes.

Penthouse: Don't you think it's ironic that while it has been alleged that the assassin was working in behalf of the Eastern bloc, his training came, indirectly, through the agency.

Terpil: Yes, but you cannot blame the agency for specifically training him to go after the pope.

Penthouse: You're on the run; you're carrying a gun, you rely on phony names, false passports. You travel out of a suitcase and live in hotels, admittedly extremely nice hotels. But you can't really hold on to anything. Does that bother you?

Terpil: It would bother me a lot more if I were restricted to a five-by-seven cell.

Penthouse: Ed Wilson, it is rumored, passed along a message that you had placed a contract on Assistant U.S. Prosecutor Larry Barcella. Is that true?

Terpil: Total bullshit. Barcella has his job. I have no personal animosity. If Barcella gets his jollies by throwing someone in the slammer for fifty years, that's good for Barcella. I personally don't want to be a victim of any of his successes. Really, if I met the guy on the street I'd probably buy him a drink. Or—

6

The weapons I sold . . .
for assassinations or covert
activity . . . my sources
were the exact same sources
the CIA uses. Do you
see the CIA under indictment?

bribery of certain congressmen. Was the agency aware of this?

Terpil: I don't see how they could not be aware of it. Wilson was one of the original members of the Georgetown Club. He was also a charter member of the University Club. None of this was arranged for him through his own introductions.

Penthouse: Then through whom?

Terpil: The Company—the agency. The agency gave Wilson this profile of having all this money and everything else.

Penthouse: It's been alleged by Jack Anderson that the Justice Department was investigating statements that payments were made secretly to Senator Strom Thurmond by a middleman acting for Ed Wilson. Could you tell us about that?

Terpil: The courier who testified about dropping the money was Kevin Mulcahy. He worked for both Wilson and me. He stated that the drop was made to another courier, a prominent Washington socialite, in front of the passport office on 14th and K. Mulcahy would give him an attaché case. And the payments were in increments of \$4,000.

Penthouse: Not a pretty picture.

Terpil: Right. American politics is so fuck-

FEDERAL BUREAU OF INVESTIGATION
FOI/PA
DELETED PAGE INFORMATION SHEET
FOI/PA# 1355280-0

Total Deleted Page(s) = 1
Page 9 ~ b6; b7C; b7D;

XXXXXXXXXXXXXXXXXXXXXXXXXXXX
X Deleted Page(s) X
X No Duplication Fee X
X For this Page X
XXXXXXXXXXXXXXXXXXXXXXXXXXXX

VZCZCH0006

DECLASSIFICATION AUTHORITY DERIVED FROM:
FBI AUTOMATIC DECLASSIFICATION GUIDE
DATE 08-25-2017 BY: C28W34B64

RR AK WF

DE HQ #~~00000000~~ 3286357

ZNY SSSSE

R 150147Z NOV 84

FM DIRECTOR FBI

TO FBI ALEXANDRIA ROUTINE

FBI WASHINGTON FIELD ROUTINE

BT

ALL INFORMATION CONTAINED
HEREIN IS UNCLASSIFIED
WHERE SHOWN OTHERWISE.

~~SECRET~~

FRANCIS EDWARD TERPIL - FUGITIVE; ET AL.; RA LIBYA, CONSPIRACY,
SOLICITATION TO COMMIT MURDER; OO: ALEXANDRIA;

[REDACTED] AKA [REDACTED] IT-MZ, NEUTRALITY MATTERS; OO: WFO.

BY TELETYPE DATED NOVEMBER 14, 1984 LEGAT PARIS ADVISED:

THIS ENTIRE COMMUNICATION IS CLASSIFIED "SECRET".

RE LEGAT BERD TEL TO DIRECTOR DATED MARCH 2, 1984, CAPTIONED

[REDACTED] AKA [REDACTED] IT-ME, NEUTRALITY MATTERS; OO: WFO"

AND BUTEL OF MARCH 5, 1984, SAME CAPTION.

LEGAT PARIS IN PROCESS OF REVIEWING TERPIL FILE, NOTES
THAT REFERENCED COMMUNICATIONS INDICATE THE EFFORTS OF THE BUREAU TO
DETERMINE THE WHEREABOUTS OF TERPIL, INCLUDING AN ATTEMPT TO

IT IS NOTED BY CASE AGENT

[REDACTED] THAT NO INPUT

WAS REQUESTED OR AUTHORIZED

BY OO FROM FBIHQ.

THIS COMMUNICATION RECEIVED
BY SA [REDACTED] ON 3/11/84

SEARCHED INDEXED
SERIALIZED FILED

APR 1 1984

~~SECRET~~

b3
b7E

b6
b7C

b3
b6
b7C
b7E

PAGE TWO DE HQ ETCSS SECRET

DETERMINE THE TRAVEL PLANS RECENTLY OF [REDACTED] INASMUCH AS TERPIL REMAINS IN FUGITIVE STATUS, LEGAT PARIS IS CONSIDERING APPROACHING ESTABLISHED BUREAU SOURCES IN AN EFFORT TO DEVELOP INFORMATION CONCERNING TERPIL. IN ORDER TO DETERMINE THE FEASIBILITY OF THESE CONTACTS, ~~(S)~~ (U) LEGAT PARIS REQUESTS FBIHQ TO FURNISH A SYNOPSIS AND UPDATING OF THE CURRENT STATUS OF THE INVESTIGATION OF TERPIL AND [REDACTED] SINCE MARCH, 1984, TO INCLUDE ANY LEADS OR RESULTS OF THE REPORTED INTERVIEW OF TERPIL BY PENTHOUSE MAGAZINE. IN ADDITION, HAS FBIHQ MAINTAINED CONTACT WITH DOJ ATTORNEY [REDACTED] FOR AN UPDATE OF HIS MOST RECENT INFORMATION AND EFFORTS CONCERNING TERPIL?

b6
b7c

LEADS: LEGATS BERN AND LONDON RE REQUESTED TO FURNISH ANY NEW INFORMATION SINCE MARCH 3, 1984, BERN TELETYPE WHEREBY SWISS AUTHORITIES ADVISED THAT [REDACTED] AS OF MARCH 5, 1984, WAS IN LONDON. ~~(S)~~ (U)

b6
b7c

(U) BASED ON THE RESPONSES TO THE ABOVE, LEGAT PARIS WILL CONSIDER THE FEASIBILITY OF CONTACTING ESTABLISHED SOURCES IN AN ATTEMPT TO DETERMINE TERPIL'S WHEREABOUTS. LEGAT PARIS FURTHER REQUESTS SUGGESTIONS AND/OR GUIDANCE FROM FBIHQ CON-

~~SECRET~~

PAGE THREE DE HQ 2236 ~~SECRET~~

CERNING APPROPRIATENESS OF FURTHER EFFORTS TO DETERMINE WHERE-
ABOUTS OF TERPIL.

~~C BY G-5, DECL ON OADR~~

BT

#2236

NN NN

~~SECRET~~

ALL INFORMATION CONTAINED
HEREIN IS UNCLASSIFIED
DATE 6-20-88 BY 605 cjam

ABL:baw

On January 24, 1985, SA [redacted] met with [redacted] (protect identity per request for confidentiality), [redacted] Source had been contacted by [redacted] (see enclosure) who claimed to be [redacted] GARRETT BROCK TRAPNELL, now in the Federal prison in Marion, Illinois. Apparently TRAPNELL is trying to sell a story about his prison life and life in maximum security with other notables such as [redacted] and EDWIN PAUL WILSON.

Writer was contacted by source to determine the Bureau's interest in any information concerning WILSON. Writer stated that the Bureau's interest would mainly lie in any efforts WILSON may take in the way of plotting illegal activities such as he has in the past while in prison. Source was familiar with WILSON past murder-for-hire schemes.

Source and writer then discussed a public accounting of TRAPNELL's lurid past which includes aircraft hijacking, armed bank robbery, extortion, smuggling, securities theft, kidnapping and notably his escape attempts from Federal prison. In May of 1978, TRAPNELL, while in the Marion facility convinced BARBARA ANN OSWALD whom he had known only a short time, to obtain guns, rent a helicopter, then hijack it in an attempt to make a "Mexican Jailbreak" also known as (aka) CHARLES BRÖNSEN's movie Breakout. Unfortunately, OSWALD was shot and killed by the pilot and the helicopter crash landed just outside the prison. This was the subject of extensive media coverage and Bureau file #164-5015.

A book has been written about TRAPNELL - "The Fox is Crazy Too" by ELIOT ASINOF, published by WILLIAM MORROW & COMPANY.

The following general data is set out here about TRAPNELL from a review of the above mentioned file:

Full Name:	GARRETT BROCK TRAPNELL
DPOB:	1/31/38 in Boston, Massachusetts
Height:	5'11"
Weight:	174 lbs.
Hair:	Brown
Eyes:	Blue
U.S.B.P. #:	72021-158, currently housed in the maximum security K-Unit at Marion F.C.I., Illinois.

b3
b7E

b6
b7C
b7D

b3
b7E

[redacted]

TRAPNELL is currently serving two life sentences plus several other lengthy sentences for his various aforementioned crimes. He is considered by prison authorities to be ruthless, dangerous, and an escape risk. Apparently in May 1980, TRAPNELL tried to mount a campaign of sorts for the U.S. presidency from his prison cell. He called his party the Nationalist Christian Democratic Party.

After discussing this situation with AUSA [redacted] D.D.C., who controls WILSON's visitor list, source was told the FEDERAL BUREAU OF INVESTIGATION (FBI) would be glad to accept any information on illegal activities of any of the above mentioned inmates provided by TRAPNELL.

b3
b7E

b6
b7C

December 8th, 1984

ALL INFORMATION CONTAINED
HEREIN IS UNCLASSIFIED
DATE 6-20-88 BY SPS/cf/m

b6
b7C
b7D

Confidential Query

Dear [redacted]

Where does the federal government put those convicts so notorious they cannot fit into a simple Leavenworth, Atlanta, or even a Marion? Where is the government hiding the Ed Wilsons, the [redacted] the [redacted] and the [redacted] ? Where are the C.I.A. agents, spies, notorious authors, and political murderers kept?

Continued
In K-Unit: a prison facility, located in the basement of the nation's most maximum security prison, so secret Congress doesn't even know it exists. A facility so sensitive that one can find no mention of it in the Federal Register; a place referred to as America's Spandau. Forbidding, literally a dungeon; it costs the tax-payers upwards of seventy thousand dollars per prisoner per year to maintain. It is a unit capable of housing only seven prisoners; prisoners whose names come straight from the nation's headlines: Ed Wilson, [redacted] and Garrett [redacted]

Brock Trapnell.

b6
b7C

If you would be interested in seeing the article on K-Unit, and its inhabitants, which I, and free-lance writer [redacted] are working on. please don't hesitate to contact us at: [redacted]

Thank you in advance for your kind consideration.

Sincerely yours,

GBT
Garrett Brock Trapnell

b6
b7C

cc:

FBI

TRANSMIT VIA:

Teletype
 Facsimile
 AIRTEL

PRECEDENCE:

Immediate
 Priority
 Routine

CLASSIFICATION:

TOP SECRET
 SECRET
 CONFIDENTIAL
 UNCLAS E F T O
 UNCLAS

Date 6/5/85

TO: DIRECTOR, FBI
ATTN: CID, FUGITIVE UNIT
AND INTELLIGENCE DIVISION

FROM: SAC, JACKSONVILLE (RUC)

SUBJECT: FRANCIS EDWARD TERPIL, aka -
FUGITIVE (A);
ET AL
RA - LIBYA;
CONSPIRACY; SOLICITATION
TO COMMIT MURDER
OO: ALEXANDRIA

Re Alexandria airtel dated 5/22/85; and teletype dated
4/10/85.

On 6/21/85,

was interviewed and she advised as follows:

The last contact with captioned subject, was 12/10 and 12/11/82, when he called and the day after in that she could not talk long on . Prior to this, the last personal contact was during 1980 in Beirut, Lebanon, when TERPIL'S apartment in that that TERPIL was married to

 . She went to the apartment due to learning that this was

 Was to be part of a documentary being filmed about captioned subject. She did not like the fact that in the documentary. The documentary was believed to be shown on 60 Minutes and filmed by has a copy of this video tape which was recorded in England and may require a special video recorder to replay it.

3 - Bureau

2 - Alexandria

2 - Jacksonville

Approved:

PS:psd

(7)

Transmitted

(Number) (Time)

215247Z JUN 1985

INDEXED

FILED

U.S. GOVERNMENT

Printing Office 1984-4434 813 8249

JUN 10 1985

ALEXANDRIA

b3
b7E

b6
b7C

b6
b7C

b3
b7E

b6
b7C

She has heard rumors that TERPIL'S [redacted] has entered and exited the United States but could not provide the identity of the source of this information nor whether or not it was factual. She has no reason to believe that TERPIL would return to the United States at this time. In the event that he did return to the United States, she plans to have her attorney file charges relative to [redacted] from TERPIL. She does not know where he is nor where he could be expected to be located in the future other than the fact that she learned from AUSA [redacted] that he may have been in Morocco.

The only people she could think of that might know his whereabouts are the following:

(1) [redacted] who is [redacted] and may try to [redacted] TERPIL, who resides in the Washington, D.C. area [redacted]

(2) [redacted] (phonetic) and [redacted], who [redacted] in approximately late 1977. [redacted] is in bad health and is described as an opportunist who was aware of TERPIL'S affair with above [redacted] during 1980 while in the United States.

[redacted] is extremely hostile toward TERPIL not only due to the fact that he left [redacted] and the above indicated [redacted] but due to the fact that TERPIL'S [redacted] when TERPIL fled the United States! She does not believe that he would even contact [redacted] who is currently in [redacted]

[redacted] in Fairfax County, Virginia, due to the fact that when he, captioned subject, fled the United States, he gave [redacted] \$25 and said that he did not think he would make it in life although he believed his [redacted] would.

TERPIL [redacted] and captioned subject met [redacted] initially in the [redacted] were [redacted] stationed at the same time the TERPILS were stationed there. Then they both were assigned to New Delhi, India. She last talked to [redacted] prior to Christmas, 1984. Before this, she last saw her approximately 1971. Other than the information provided by above AUSA regarding captioned subject's recent association with [redacted] was not aware of this contact or any other contacts of captioned subject in the recent past.

In the event [redacted] assistance would be of benefit to a scenario which would result in captioned subject being returned to the United States, she would consider assisting, although she currently could think of no scenario which would cause captioned TERPIL to return to the United States.

[redacted]

b3
b7E

UAC Alexandria, Jacksonville will periodically contact
[redacted] in order to determine if she has learned any pertinent
information regarding captioned subject's whereabouts or future
plans.

b6
b7C